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CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2018

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CONTENTS

Consolidated Statement of Financial Position

FY2017 (As of March 31, 2018)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Assets				
Current assets				
Cash and cash equivalents	8, 41	112,032	121,384	1,145,132
Trade and other receivables	9, 41	96,112	104,624	987,019
Other financial assets	10, 41	9,701	9,272	87,472
Inventories	11	112,432	116,967	1,103,462
Other current assets	12	14,701	14,211	134,066
Subtotal		344,980	366,459	3,457,160
Non-current assets classified as held for sale	13	245	174	1,642
Total current assets		345,225	366,633	3,458,802
Non-current assets				
Property, plant and equipment	14, 17	120,767	120,320	1,135,094
Investment property	15	6,646	6,465	60,991
Goodwill and intangible assets	16, 17	147,012	153,913	1,452,009
Investments accounted for using the equity method	18	1,506	1,498	14,132
Other financial assets	10, 19, 41	29,640	38,681	364,915
Deferred tax assets	20	16,691	13,489	127,255
Other non-current assets	12, 25	6,617	7,275	68,632
Total non-current assets		328,881	341,644	3,223,057
Total assets		674,107	708,278	6,681,868

	Notes	Millions of yen FY2016 (As of March 31, 2017)	Millions of yen FY2017 (As of March 31, 2018)	Thousands of U.S. dollars FY2017 (As of March 31, 2018)
Equity and liabilities				
Liabilities				
Current liabilities				
Trade and other payables	23, 41	66,268	68,189	643,292
Bonds and borrowings	21, 41	20,509	21,894	206,547
Other financial liabilities	21, 22, 24, 41	3,053	3,328	31,396
Income tax payables		6,461	6,099	57,538
Provisions	26	5,691	4,823	45,500
Other current liabilities	27	50,350	52,676	496,943
Subtotal		152,337	157,012	1,481,245
Liabilities directly associated with assets classified as held for sale	13	20	27	255
Total current liabilities		152,357	157,039	1,481,500
Non-current liabilities				
Bonds and borrowings	21, 41	117,082	94,552	892,000
Other financial liabilities	21, 22, 24, 41	10,969	12,040	113,585
Retirement benefits liabilities	25	17,612	17,610	166,132
Provisions	26	3,376	3,141	29,632
Deferred tax liabilities	20	7,843	8,257	77,896
Other non-current liabilities	27	3,154	3,143	29,651
Total non-current liabilities		160,040	138,743	1,308,896
Total liabilities		312,398	295,783	2,790,406
Equity				
Capital stock	28	19,209	19,209	181,217
Capital surplus	28	17,455	17,517	165,255
Retained earnings		407,843	427,842	4,036,245
Treasury stock	28	(24,230)	(2,800)	(26,415)
Other components of equity		(75,216)	(66,255)	(625,047)
Equity attributable to owners of the parent company		345,061	395,514	3,731,264
Non-controlling interests		16,647	16,980	160,189
Total equity		361,709	412,494	3,891,453
Total equity and liabilities		674,107	708,278	6,681,868

Consolidated Statement of Income

FY2017 (Year Ended March 31, 2018)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Revenue	6, 15, 30	641,185	712,997	6,726,387
Cost of sales	11, 14, 15, 16, 25, 31,34	(368,016)	(412,211)	(3,888,783)
Gross profit		273,169	300,786	2,837,604
Selling, general and administrative expenses	14, 16, 25, 32, 40	(212,410)	(223,557)	(2,109,028)
Other income	33, 34	3,647	1,832	17,283
Other expenses	17, 25,33	(5,253)	(10,390)	(98,019)
Operating profit	6	59,152	68,672	647,849
Finance income	35	3,600	3,522	33,226
Finance expenses	35	(1,648)	(2,598)	(24,509)
Share of profit/(loss) of investments accounted for using the equity method	18	152	72	679
Profit before income taxes		61,257	69,669	657,255
Income tax expenses	20	(13,817)	(19,196)	(181,094)
Profit for the year		47,440	50,472	476,151
Profit for the year attributable to:				
Owners of the parent company		47,242	50,020	471,887
Non-controlling interests		198	451	4,255
Profit for the year		47,440	50,472	476,151

	Notes	Yen		U.S. dollars
		FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Earnings per share				
Basic earnings per share	36	181.96	192.63	1.82
Diluted earnings per share	36	181.46	192.08	1.81

Consolidated Statement of Comprehensive Income

FY2017 (Year Ended March 31, 2018)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Profit for the year		47,440	50,472	476,151
Other comprehensive income, net of income tax				
Items that will not be reclassified subsequently to profit or loss				
Gains on investments in equity instruments designated as FVTOCI	37	2,689	2,591	24,443
Remeasurement of the net defined benefit liability	37	63	1,377	12,991
Share of other comprehensive income of investments accounted for using the equity method	18, 37	(21)	(2)	(19)
Total of items that will not be reclassified subsequently to profit or loss		2,730	3,966	37,415
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges	37	38	161	1,519
Exchange differences on translating foreign operations	37	(28,948)	8,808	83,094
Total of items that may be reclassified subsequently to profit or loss		(28,909)	8,969	84,613
Other comprehensive income for the year, net of income tax		(26,179)	12,936	122,038
Comprehensive income for the year		21,260	63,408	598,189
Comprehensive income for the year attributable to:				
Owners of the parent company		20,983	62,822	592,660
Non-controlling interests		277	586	5,528
Comprehensive income for the year		21,260	63,408	598,189

Consolidated Statement of Changes in Equity

FY2016 (Year Ended March 31, 2017)

(Millions of yen)

	Notes	Equity attributable to owners of the parent company						
						Other components of equity		
	Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations	Cash flow hedges	Unrealized gains/ (losses) on available-for-sale securities
Balance as of March 31, 2016		19,209	17,321	363,864	(24,225)	(46,083)	(200)	3,554
Cumulative effect of adoption of the new accounting standards		―	―	3,420	―	―	―	(3,554)
Balance as of April 1, 2016		19,209	17,321	367,285	(24,225)	(46,083)	(200)	―
Profit for the year		―	―	47,242	―	―	―	―
Other comprehensive income/(loss)		―	―	―	―	(28,971)	38	―
Total comprehensive income/(loss) for the year		―	―	47,242	―	(28,971)	38	―
Acquisition of treasury stock		―	―	―	(26)	―	―	―
Disposal of treasury stock		―	(9)	―	22	―	―	―
Dividends paid	29	―	―	(9,359)	―	―	―	―
Share-based payment transaction	40	―	143	―	―	―	―	―
Reclassification to retained earnings		―	―	2,674	―	―	―	―
Other increase/(decrease)		―	―	0	―	―	―	―
Total transactions with owners		―	133	(6,684)	(4)	―	―	―
Balance as of March 31, 2017		19,209	17,455	407,843	(24,230)	(75,055)	(161)	―

	Notes	Equity attributable to owners of the parent company					
		Other components of equity					
	Notes	Gains/(Losses) on investments in equity instruments designated as FVTOCI	Remeasurement of the net defined benefit liability (asset)	Total	Total	Non-controlling interests	Total equity
Balance as of March 31, 2016		―	―	(42,729)	333,440	16,545	349,986
Cumulative effect of adoption of the new accounting standards		―	―	(3,554)	(133)	44	(88)
Balance as of April 1, 2016		―	―	(46,284)	333,307	16,589	349,897
Profit for the year		―	―	―	47,242	198	47,440
Other comprehensive income/(loss)		2,644	30	(26,258)	(26,258)	79	(26,179)
Total comprehensive income/(loss) for the year		2,644	30	(26,258)	20,983	277	21,260
Acquisition of treasury stock		―	―	―	(26)	―	(26)
Disposal of treasury stock		―	―	―	12	―	12
Dividends paid	29	―	―	―	(9,359)	(215)	(9,575)
Share-based payment transaction	40	―	―	―	143	―	143
Reclassification to retained earnings		(2,644)	(30)	(2,674)	―	―	―
Other increase/(decrease)		―	―	―	0	(3)	(3)
Total transactions with owners		(2,644)	(30)	(2,674)	(9,229)	(219)	(9,449)
Balance as of March 31, 2017		―	―	(75,216)	345,061	16,647	361,709

FY2017 (Year Ended March 31, 2018)

(Millions of yen)

	Notes	Equity attributable to owners of the parent company					
						Other components of equity	
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations	Cash flow hedges
Balance as of April 1, 2017		19,209	17,455	407,843	(24,230)	(75,055)	(161)
Profit for the year		—	—	50,020	—	—	—
Other comprehensive income		—	—	—	—	8,799	161
Total comprehensive income for the year		—	—	50,020	—	8,799	161
Acquisition of treasury stock		—	—	—	(15)	—	—
Disposal of treasury stock		—	(36)	(11)	47	—	—
Cancellation of treasury stock		—	(21)	(21,369)	21,391	—	—
Dividends paid	29	—	—	(12,480)	—	—	—
Share-based payment transaction	40	—	122	—	—	—	—
Change due to stock swap		—	(2)	—	6	—	—
Reclassification to retained earnings		—	—	3,840	—	—	—
Total transactions with owners		—	62	(30,021)	21,429	—	—
Balance as of March 31, 2018		19,209	17,517	427,842	(2,800)	(66,255)	—

	Notes	Equity attributable to owners of the parent company					
		Other components of equity					
		Gains/(Losses) on investments in equity instruments designated as FVTOCI	Remeasurement of the net defined benefit liability (asset)	Total	Total	Non-controlling interests	Total equity
Balance as of April 1, 2017		—	—	(75,216)	345,061	16,647	361,709
Profit for the year		—	—	—	50,020	451	50,472
Other comprehensive income		2,462	1,378	12,801	12,801	134	12,936
Total comprehensive income for the year		2,462	1,378	12,801	62,822	586	63,408
Acquisition of treasury stock		—	—	—	(15)	—	(15)
Disposal of treasury stock		—	—	—	0	—	0
Cancellation of treasury stock		—	—	—	—	—	—
Dividends paid	29	—	—	—	(12,480)	(249)	(12,729)
Share-based payment transaction	40	—	—	—	122	—	122
Change due to stock swap		—	—	—	3	(3)	—
Reclassification to retained earnings		(2,462)	(1,378)	(3,840)	—	—	—
Total transactions with owners		(2,462)	(1,378)	(3,840)	(12,370)	(252)	(12,622)
Balance as of March 31, 2018		—	—	(66,255)	395,514	16,980	412,494

(Thousands of U.S. dollars)

	Notes	Equity attributable to owners of the parent company					
						Other components of equity	
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations	Cash flow hedges
Balance as of April 1, 2017		181,217	164,670	3,847,575	(228,585)	(708,066)	(1,519)
Profit for the year		—	—	471,887	—	—	—
Other comprehensive income		—	—	—	—	83,009	1,519
Total comprehensive income for the year		—	—	471,887	—	83,009	1,519
Acquisition of treasury stock		—	—	—	(142)	—	—
Disposal of treasury stock		—	(340)	(104)	443	—	—
Cancellation of treasury stock		—	(198)	(201,594)	201,802	—	—
Dividends paid	29	—	—	(117,736)	—	—	—
Share-based payment transaction	40	—	1,151	—	—	—	—
Change due to stock swap		—	(19)	—	57	—	—
Reclassification to retained earnings		—	—	36,226	—	—	—
Total transactions with owners		—	585	(283,217)	202,160	—	—
Balance as of March 31, 2018		181,217	165,255	4,036,245	(26,415)	(625,047)	—

	Notes	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
		Other components of equity					
		Gains/(Losses) on investments in equity instruments designated as FVTOCI	Remeasurement of the net defined benefit liability (asset)	Total	Total		
Balance as of April 1, 2017		—	—	(709,585)	3,255,292	157,047	3,412,349
Profit for the year		—	—	—	471,887	4,255	476,151
Other comprehensive income		23,226	13,000	120,764	120,764	1,264	122,038
Total comprehensive income for the year		23,226	13,000	120,764	592,660	5,528	598,189
Acquisition of treasury stock		—	—	—	(142)	—	(142)
Disposal of treasury stock		—	—	—	0	—	0
Cancellation of treasury stock		—	—	—	—	—	—
Dividends paid	29	—	—	—	(117,736)	(2,349)	(120,085)
Share-based payment transaction	40	—	—	—	1,151	—	1,151
Change due to stock swap		—	—	—	28	(28)	—
Reclassification to retained earnings		(23,226)	(13,000)	(36,226)	—	—	—
Total transactions with owners		(23,226)	(13,000)	(36,226)	(116,698)	(2,377)	(119,075)
Balance as of March 31, 2018		—	—	(625,047)	3,731,264	160,189	3,891,453

Consolidated Statement of Cash Flows

FY2017 (Year Ended March 31, 2018)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Cash flows from operating activities				
Profit before income taxes		61,257	69,669	657,255
Depreciation and amortization		33,811	34,141	322,085
Impairment losses		406	1,223	11,538
Finance expenses/(income)		(1,952)	(924)	(8,717)
Share of (profit)/loss of investments accounted for using the equity method		(152)	(72)	(679)
Losses/(gains) on sale or disposal of fixed assets		761	613	5,783
Decrease/(increase) in trade and other receivables		(2,962)	(8,756)	(82,604)
Decrease/(increase) in inventories		9,609	(4,129)	(38,953)
Increase/(decrease) in trade and other payables		5,748	2,756	26,000
Decrease/(increase) in retirement benefit assets		(523)	80	755
Increase/(decrease) in retirement benefit liabilities		1,321	(954)	(9,000)
Other		3,738	5,638	53,189
Subtotal		111,063	99,285	936,651
Interest received		937	1,030	9,717
Dividends received		361	332	3,132
Interest paid		(1,130)	(531)	(5,009)
Income taxes paid		(12,076)	(18,300)	(172,642)
Net cash provided by operating activities		99,155	81,817	771,858
Cash flows from investing activities				
Purchases of property, plant and equipment		(20,497)	(22,727)	(214,406)
Proceeds from sales of property, plant and equipment		542	565	5,330
Purchases of intangible assets		(8,454)	(9,144)	(86,264)
Purchases of investments in equity instruments		(425)	(535)	(5,047)
Proceeds from sales of investments in equity instruments		2,292	532	5,019
Purchases of investments in debt instruments		(8,126)	(10,689)	(100,840)
Proceeds from sales or redemption of investments in debt instruments		12,371	6,337	59,783
Payments for acquisition of business	7	(140)	(617)	(5,821)
Other		(831)	(810)	(7,642)
Net cash used in investing activities		(23,271)	(37,090)	(349,906)
Cash flows from financing activities				
Proceeds from short-term borrowings	38	—	671	6,330
Repayment of short-term borrowings	38	(6,361)	—	—
Repayment of long-term borrowings	38	(12,312)	(20,299)	(191,500)
Repayment of lease obligations	38	(1,878)	(1,760)	(16,604)
Dividends paid	29	(9,359)	(12,480)	(117,736)
Dividends paid to non-controlling interests		(215)	(248)	(2,340)
Other	38	(261)	(433)	(4,085)
Net cash provided by (used in) financing activities		(30,389)	(34,551)	(325,953)
Effect of exchange rate changes on cash and cash equivalents		(849)	(823)	(7,764)
Net increase/(decrease) in cash and cash equivalents		44,645	9,351	88,217
Cash and cash equivalents at the beginning of the year	8	67,387	112,032	1,056,906
Cash and cash equivalents at the end of the year	8	112,032	121,384	1,145,132

Notes to the Consolidated Financial Statements

1. Reporting Entity

BROTHER INDUSTRIES, LTD. (hereinafter referred to as the "Company") is a corporation located in Japan. The consolidated financial statements of the Company consist of the financial statements of the Company, its consolidated subsidiaries (collectively, the "Group") and its share of interests in associates.

The Group operates 6 businesses, consisting of the Printing & Solutions Business, Personal & Home Business, Machinery Business, Network & Contents Business, Domino Business and Others Business. The details of the principal businesses of the Group are described in Note 6 "Segment Information."

2. Basis of Preparation

(1) Compliance with IFRS

The Group meets all of the requirements for a "Specified Company for the designated IFRS" to prepare its consolidated financial statements by applying the designated IFRSs as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance of Japan Regulation No. 28, 1976, hereafter "the Regulation"). Hence, in accordance with Article 93 of the Regulation, the Group's consolidated financial statements have been prepared in accordance with IFRS.

The Group's consolidated financial statements for the year ended March 31, 2018, were approved on June 26, 2018 by Ichiro Sasaki, Representative Director & President of the Company.

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

- Derivative financial instruments are measured at their fair values.
- Non-derivative financial assets to be measured at fair value are measured at their fair values.
- Defined benefit pension plan assets and liabilities are measured at the present value of defined benefit obligations less the fair value of the plan assets.
- When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, its right to reimbursement is recognized as a separate asset and is measured at fair value.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded down.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan using the rate of ¥106 to $1, the foreign exchange rate at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(4) Early adoption of new accounting standards

The Group has early adopted IFRS 9 “Financial Instruments” (revised in July 2014) (hereinafter referred to as "IFRS 9").

3. Significant Accounting Policies

Unless otherwise indicated, the accounting policies stated below have been consistently applied to all the periods reported in the consolidated financial statements.

(Changes in accounting policies)

The Group has adopted the following standard and interpretation since the year ended March 31, 2018.

IFRS		Description of new standards and amendments
IAS 7	Statement of Cash Flows	Provides disclosure for changes in liabilities arising from financing activities

There is no effect on the consolidated financial statements from the adoption of the above standard and interpretation.

(1) Basis of consolidation

<1> Subsidiaries

A subsidiary is an entity that is controlled by the Group. As a result of such control, the Group has exposures and rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over such entity.

The subsidiary is consolidated from the date of acquisition of the control to the date of loss of the control by the Group.

If accounting policies applied by subsidiaries are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary. All intra-Group balances, transactions, unrealized gains and losses are eliminated on consolidation.

Changes in an interest of a subsidiary without losing control are accounted for as equity transactions. If there is a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, the difference is recognized directly in equity and attributed to the owners of the parent company.

If loss in control of a subsidiary occurs, the Group recognizes in profit or loss the gains and losses arising from the transaction.

<2> Associates and joint ventures

An associate is an entity over which the Group does not have control or joint control but has significant influence over its financial and operating policies.

A joint venture is an entity based on contractual agreements in which two or more parties have been bounded to conduct significant economic activities through joint control.

Investments in associates are accounted for using the equity method. Under the equity method, the investments in an associate or a joint venture are initially recognized at acquisition cost and the carrying amount is increased or decreased to recognize the Group's share of the net assets of the associate or the joint venture after the date of acquisition. The amount of goodwill recognized at the date of acquisition has been included in the carrying amount of investments without any amortization.

The accounting policies for associates and joint ventures are adjusted as required in order to comply with the accounting policies adopted by the Group.

(2) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group in exchange for control of the acquiree. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Acquisition-related costs including finder's fees, legal, due-diligence and other professional fees are recognized in profit or loss as incurred.

Non-controlling interests measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted during the 'measurement period' (which cannot exceed one year from the acquisition date) or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at the date.

Additional acquisitions of non-controlling interests are accounted for as equity transactions, and no goodwill is recognized. When a business combination is achieved in stages, the Group's previously-held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with International Accounting Standard ("IAS") 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and,
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

(3) Foreign currencies

<1> Foreign currency transaction

Foreign currency transactions are translated into the functional currency of each company in the Group at the rates of exchange prevailing at the date of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was originally determined.

Differences arising from the translation or settlement are recognized in profit or loss, as presented in "Other income" or "Other expenses" in the consolidated statement of income. However, differences relating to financial activities are presented in "Finance income" or "Finance expenses" in the consolidated statement of income. Also, differences arising from financial assets carried at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

<2> Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period. Foreign exchange differences arising from the translation are initially recognized as "Exchange differences on translating foreign operations" in other comprehensive income and accumulated in “Other components of equity", which are reclassified from equity to profit or loss on disposal.

Goodwill and fair value adjustments resulting from the acquisition of foreign operations are retranslated as assets and liabilities of such foreign operations as at the end of the reporting period. The exchange differences are recognized in “Exchange differences on translating foreign operations” in other comprehensive income and accumulated in "Other components of equity".

(4) Financial instruments

The Group has early-applied IFRS 9 “Financial Instruments” (revised in July 2014).

<1> Financial assets

(i) Initial recognition and measurement

Financial assets are classified into financial assets measured at fair value through profit or loss or other comprehensive income and those measured at amortized cost. The classification is determined at the time of initial recognition.

All financial assets other than those measured at fair value through profit or loss are measured at fair value and transaction costs.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Equity instruments are in principle irrevocably designated as measured at fair value through other comprehensive income (“FVTOCI”). Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if the objective of business model has been achieved by both collecting contractual cash flows and selling financial assets.

(ii) Subsequent measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount. Interest income based on the effective interest method is recognized in profit or loss and included in “Finance income” in the consolidated statement of income. In cases where a financial asset measured at amortized cost is derecognized, the difference between the carrying amount and the consideration received or receivable is recognized in profit or loss and included in “Other income” or “Other expenses” in the consolidated statement of income.

(b) Financial assets measured at fair value

Changes in the fair value or gains or losses on disposal of financial assets measured at fair value other than derivatives are recognized in profit or loss and included in “Other income” or “Other expenses” in the consolidated statement of income. However, remeasurement of fair value and gains or losses on disposal of investments in equity instruments designated as at FVTOCI are recognized as other comprehensive income, and the accumulated amount is reclassified into retained earnings. Dividends from the financial assets are recognized in profit or loss as part of “Finance income” in the consolidated statement of income.

(iii) Impairment on financial assets

An allowance for doubtful accounts is recognized for expected credit losses for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and lease receivables.

The Group assesses, at the end of each reporting period, whether the credit risk of financial instruments has increased significantly since initial recognition. If certain financial assets are deemed to have low credit risk as of the reporting date, the Group determines that the credit risk on the financial instruments has not significantly increased after the initial recognition.

If the credit risk on financial assets has significantly increased since the initial recognition, or with respect to the credit-impaired financial assets, a loss allowance is recognized for the lifetime expected credit losses. If such risk has not significantly increased, a loss allowance is recognized for the 12-month expected credit losses. Expected credit losses are measured based on the present value of the difference between the contractual cash flows to be received and the cash flows expected to be received.

The Group directly reduces the total carrying amount of financial assets if it does not reasonably expect to collect all or part of certain financial assets.

In regard to operating receivables and lease receivables, lifetime expected credit losses are recognized since the initial recognition.

The amount of expected credit losses (or reversal) that is required to adjust the loss allowance is recognized in profit or loss and included in “Other expenses” or “Other income” in the consolidated statement of income.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset. If the Group retains control over the transferred financial asset, the Group recognizes its retained interest on the financial asset and an associated liability for amounts it may have to pay to the extent of its continuing involvement in the financial asset.

<2> Financial liabilities

(i) Initial recognition and measurement

The Group classifies all financial liabilities other than derivatives into financial liabilities measured at amortized cost.

All financial liabilities are measured at fair value at initial recognition. However, those other than derivatives are measured at fair value after deducting transaction costs that are directly attributable to the issuance of financial liabilities.

(ii) Subsequent measurement

Financial liabilities other than derivatives are measured at amortized cost using the effective interest method after the initial recognition. Interest expenses using the effective interest method are included in “Finance expenses” in the consolidated statement of income, and gains or losses on derecognition are recognized in profit or loss and included in “Other income” or “Other expenses,” respectively.

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired.

<3> Presentation of financial assets and liabilities

Financial assets are offset against financial liabilities and the net amounts are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize assets and settle the liabilities simultaneously.

<4> Hedge accounting and derivatives

Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The Group utilizes derivatives such as foreign exchange contracts to fix cash flows regarding the recognized financial assets and liabilities or the future transactions. The Group does not hold any derivatives for speculative or dealing purposes in accordance with the Group's rule.

The Group has derivatives that are held for hedging purposes but do not qualify for hedge accounting. The fluctuation of the fair value of these derivatives is recognized in profit or loss immediately, and included in "Other income" or "Other expenses" in the consolidated statement of income. However, the fluctuation of the fair value of derivatives related to financial activities are included in "Finance income" or "Finance expenses" in the consolidated statement of income. The effective portion of cash flow hedges is recognized in other comprehensive income.

To assess whether the hedging relationship qualifies for hedge accounting, at the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategies for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group assesses whether the hedging instrument is effective in offsetting changes in cash flows of hedged item attributable to the hedged risk.

Hedges are determined effective when all of the following requirements are met:

(i)There is an economic relationship between the hedged item and the hedging instrument;

(ii)The effect of credit risk does not dominate the value changes that result from that economic relationship; and

(iii)The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged items that the Group actually hedges and the quantity of the hedging instruments that the Group actually uses to hedge that quantity of hedged items.

If a hedging relationship ceases to meet the hedge effectiveness requirements relating to the hedge ratio, but the risk management objective remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Cash flow hedge accounting is applied only for highly probable forecast transactions.

Hedging relationships that meet qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The Group uses only cash flow hedges.

The portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognized in other comprehensive income, and any remaining gain or loss on the hedging instruments that is determined to be an ineffective hedge is recognized in profit or loss immediately in the consolidated statement of income.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group directly transfers the cash flow hedge reserve to the initial cost or other carrying amount of the asset or liability.

Cash flow hedge reserve on cash flow hedges other than those stated above is reclassified to profit or loss in the same period during which the hedged expected future cash flows affect profit or loss.

However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, the amount that is not expected to be recovered is immediately reclassified into profit or loss.

When the Group discontinues hedge accounting, if the hedged future cash flows are still expected to occur, the unrealized gain or loss on the cash flow hedge remains as another component of equity until the future cash flows occur. If the hedged future cash flows are no longer expected to occur, the unrealized gain or loss on the hedge is immediately reclassified to profit or loss.

(5) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposit and other short-term, highly-liquid investments with original maturities of approximately three months or less and insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined mainly using the weighted-average method.

(7) Property, plant and equipment

Property, plant and equipment are measured by using the cost model and are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

The cost includes any costs directly attributable to the acquisition of the assets, any cost related to their dismantlement, removal or restoration of land and any borrowing costs eligible for capitalization.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful life of each component of the assets.

The estimated useful lives of major property, plant and equipment are as follows:

- Buildings and structures: 3 to 60 years
- Machinery and equipment: 3 to 20 years
- Tools, equipment and fixtures: 2 to 20 years

The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed at each year end and changed as necessary.

Property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of property, plant and equipment is recognized in profit or loss when the item is derecognized and is included in "Other income" or "Other expenses" in the consolidated statement of income.

(8) Investment property

Investment properties are properties held to earn rental income and/or for capital appreciation.

Investment properties are measured by using the cost model and are initially stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of investment properties is principally computed under the straight-line method over the following estimated useful lives:

Buildings and structures: 3 to 60 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year end and changed as necessary.

(9) Goodwill and Intangible assets

<1> Goodwill

Goodwill is measured at the sum of the consideration transferred, the amount of non-controlling interest and the fair value of equity interests in the acquiree held previously by the Group, less the net amount of identifiable assets and liabilities at the acquisition date. Goodwill is recognized at acquisition cost less accumulated impairment losses.

Goodwill is not amortized, but instead tested for impairment annually or whenever there is any indication of impairment. An impairment loss on goodwill is included in “Other expenses” in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in a subsequent period.

<2> Capitalization of development cost

Expenditures on research activities to gain new scientific or technical knowledge are recognized as expenses as incurred. Expenditures on development activities are capitalized as internally-generated intangible assets only if the Group can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Initial recognition of the internally-generated intangible assets is the total expenditure incurred from the date when all the above conditions are satisfied to the date when the developments are finished. The internally-generated intangible assets are amortized using the straight-line method over a period in which the funds spent for the development are expected to be recovered (i.e., 2 to 5 years) and are presented in the consolidated statement of financial position at cost, net of accumulated amortization and accumulated impairment losses.

Expenditures on development activities that do not meet the conditions above and research activities are recognized as expenses as incurred.

<3> Other intangible assets

Separately acquired intangible assets are measured at the acquisition at the time of initial recognition. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Intangible assets other than goodwill are amortized using the straight-line method over the estimated useful life of each component of the assets and are stated at the acquisition cost less any accumulated amortization and accumulated impairment losses. The estimated useful lives of major intangible assets are as follows:

- Software: 2 to 5 years
- Patents: 8 to 10 years
- Customer related assets: 15 years

The estimated useful lives, residual values and amortization methods are reviewed at each year-end and changed as necessary.

Intangible assets with indefinite useful lives are recognized at acquisition cost less accumulated impairment losses and are not amortized, but instead tested for impairment annually or whenever there is any indication of impairment.

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their continued use or disposal. The gain or loss arising from the derecognition of intangible assets is included in profit or loss when the item is derecognized and is included in “Other income” or “Other expenses” in the consolidated statement of income.

(10) Non-current assets held for sale

Non-current assets (or disposal groups) for which the carrying amount is expected to be recovered through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) held for sale when the following conditions are met: it is highly probable that the asset or disposal group will be sold within one year, the assets (or disposal groups) are available for immediate sale in their present condition, and the Group management commits to the sale plan. In such cases, they are not depreciated or amortized and are measured at the lower of their carrying amount and the fair value less costs to sell.

(11) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to lessee. All other leases are classified as operating leases.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease," even if the arrangement does not take the legal form of a lease.

In finance lease transactions as the lessee, lease assets and lease obligations are initially recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Subsequent to the initial recognition, the assets are depreciated based on the applicable accounting policies applied to the assets.

Lease payments are allocated to finance expenses and repayment amounts of lease obligations based on the interest method, and finance expenses are included in the consolidated statement of income.

Lease receivables arising from finance lease transactions as lessor are recognized at the amounts of the net investment in the relevant lease transactions.

In operating lease transactions as lessee, lease payments are recognized as an expense over the lease terms using the straight-line method in the consolidated statement of income. Variable lease payments are recognized as an expense over the period in which they are incurred.

In operating lease transactions as lessor, income from operating leases are recognized in profit or loss using the straight-line method over the lease term, and the initial direct cost incurred within the Group at the conclusion of the operating lease agreement is added to the carrying amount of the lease asset and recognized in profit or loss over the lease term under the same criteria as lease income. Variable lease payments receivables are recognized in profit or loss over the period in which they are incurred.

(12) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amount of its non-financial assets, except for inventories and deferred tax assets, and assesses whether there is any indication of impairment regarding each asset or cash-generating unit (or group) to which the asset belongs. Impairment tests are performed if indications of impairment exist. The cash-generating unit (or group) to which an impairment test is performed is the smallest unit (or group) that is identified to generate cash inflows independently of cash inflows from other assets or asset groups. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. Goodwill and intangible assets with indefinite useful lives are allocated to appropriate cash-generating units and tested for impairment at least annually, irrespective of whether there is any indication of impairment or whenever there is an indication of impairment.

The recoverable amount of assets or cash-generating units is the higher of the value in use and the fair value less costs of disposal. In calculating value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. In measuring fair value less costs of disposal, appropriate valuation models evidenced by available fair value indicators are used.

When the carrying amount of the asset or the cash-generating unit exceeds its recoverable amount, the exceeding amount is recognized as impairment losses in “Other expenses” in the consolidated statement of income. The impairment loss recognized in relation to the cash-generating unit (or group) is allocated first to reduce the carrying amount of goodwill allocated to the unit and then to allocate the impairment loss that exceeds the carrying amount of goodwill to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or group).

An impairment loss is reversed if the indication that an impairment loss previously recognized may no longer exist and the recoverable amount exceeds the carrying amount as a result of an estimation of the recoverable amount. The increased carrying amount by the reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in prior years. The impairment loss for goodwill is not reversed.

(13) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of the qualifying assets, which are assets that necessarily take a substantial period of time to get ready for the intended use or sale are added to the costs of those assets, until the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(14) Employee benefits

<1> Post-employment benefits

The Company and certain consolidated subsidiaries provide defined benefit plans and defined contribution plans as employees' post-employment benefit plans.

Defined contribution plans are post-employment benefit plans under which the companies pay fixed contributions into separate entities and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

The Company and certain consolidated subsidiaries calculate the present value and the service cost of defined benefit obligations mainly using the projected unit credit method.

The discount period is determined based on the period until the expected date of future benefit payment in each reporting period, and the discount rate is determined by reference to market yields on high quality corporate bonds at the fiscal year-end corresponding to the discount period.

Net defined benefit liabilities or assets are the present value of defined benefit obligations less the fair value of plan assets and presented as “Retirement benefit liabilities” or included in “Other non-current assets” in the consolidated statement of financial position. When there is a funding surplus, net defined benefit asset is recognized up to the ceiling of the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

If it is virtually certain that some or all of the expenditure required to settle defined benefit obligations is expected to be reimbursed by another party, the right of such reimbursement is recognized as an asset and included as part of “insurance reserve funds” in “Other non-current assets” in the consolidated statement of financial position.

The differences arising from the remeasurement of net defined benefit liabilities (assets) are collectively recognized as other comprehensive income in the period in which they occur and are immediately reclassified from other components of equity to retained earnings.

Past service cost, which is the change in the present value of defined benefit obligations resulting from the amendment or curtailment of the plan, is recognized in profit or loss in the period in which it is incurred.

Contributions to the defined contribution plan are recognized as an expense when employees provide related services.

<2> Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the service is rendered.

Accruals are recognized as a liability when the companies have present legal or constructive obligations to pay as a result of past employee service and when reliable estimates of the obligation can be made.

<3> Other employee benefits

Long-term employee benefit obligations other than retirement benefit obligations are determined by discounting the estimated amount of future benefits obtained as a result of past and current employee service to its present value.

(15) Share-based payments

The Group has adopted a stock option scheme as an equity-settled share-based payment scheme. The fair value determined at the grant date is expensed over the vesting period in the consolidated statement of income, taking into account the estimated number of stock options that will eventually vest, and the same amount is recognized as an increase in capital in the consolidated statement of financial position. The fair value of the option granted is calculated using the Black-Scholes Model or other methods considering the terms and conditions.

(16) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle such obligations and reliable estimates can be made of the amounts. The amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation, discounting to the present value using a pre-tax discount rate that reflects the effect of the time value of money and risks specific to the obligation. Interest expense associated with the passage of time are recognized as finance expenses.

<1> Asset retirement obligations

When legal or contractual obligations are imposed in relation to the retirement of property, plant and equipment due to the acquisition, construction, development or normal operation of the property, plant and equipment, the amount calculated by discounting expected future expenditures required for the retirement to the present value is recognized as a liability in the consolidated statement of financial position, and the amount corresponding to the liability is accounted for as part of property, plant and equipment and investment property. Estimated future expenses and the applied discount rate are reviewed annually and added to or subtracted from the respective accounts if adjustments are deemed necessary.

<2> Provision for product warranty

Provision for product warranty is estimated and recognized based on past experience of the occurrence of detective goods and the expected after-sales service costs in the warranty period. The provision of allowance for product warranty is included in “Selling, general and administrative expenses” in the consolidated statement of income.

<3> Other provisions

Other provisions include a provision for adjustments of returned unsold goods.

(17) Revenue

Revenue is measured at the fair value of the consideration received from sales of goods and rendering of services. Revenue is reduced for discounts, rebates and sales-related taxes.

<1> Sale of goods

The Company mainly sells printers, communication/printing equipment (such as multifunctional machines), domestic sewing machines, industrial sewing machines, machine tools, reducers, gears and commercial online karaoke systems, as well as industrial printing equipment. Revenue from the sale of these goods is recognized when the significant risks and rewards of ownership of the goods have transferred to customers, continuing involvement in and substantial control of the goods are not retained, an inflow of future economic benefits into the Group will be probable and the benefits and corresponding cost can be measured reliably.

<2> Rendering of services

The Company provides mainly content distribution services for commercial online karaoke systems and mobile devices. Revenue from rendering of these services is recognized according to the utilization and contract term of the services when the amount of revenue can be measured reliably, an inflow of economic benefits related to the transaction into the entity will be probable, the progress can be measured reliably at the end of the reporting period and the cost incurred related to the transaction and the cost required for the completion of the transaction can be measured reliably.

If the accomplishment of the transaction related to rendering of services cannot be estimated reliably, revenue is recognized only to the extent of costs incurred that are expected to be recoverable.

<3> Royalty

Royalty is recognized with economic benefits on an accrual basis in accordance with the substance of the relevant agreement.

<4> Real estate rental income

Real estate rental income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

(18) Government grants

Government grants are recognized at fair value until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grant associated with an expense are recognized as revenue in the same accounting period when the expense is incurred. Government grant related to assets are recognized as deferred revenue and transferred to profit or loss on a systematic basis over the useful lives of the related assets.

(19) Income taxes

Income taxes represents the sum of the current taxes and deferred taxes. These income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and those arising from business combinations.

Current taxes are measured at the amount expected to be paid to or refunded from local taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period based on the taxable profit or loss for the Group's operating activity in each country.

Deferred taxes are recognized over the temporary differences between the carrying amounts of assets and liabilities and their tax basis, unused tax losses and unused tax credits at the end of each reporting period. The deferred tax assets or liabilities are not recognized for the following temporary differences:

- temporary differences arising from the initial recognition of goodwill;
- temporary differences arising from the initial recognition of assets or liabilities in transactions that do not affect either accounting profit or taxable profit, except business combination;
- taxable temporary differences arising from investments in subsidiaries and associates and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and that it is not probable that the temporary difference will reverse in the foreseeable future; and
- deductible temporary differences arising from investments in subsidiaries and associates and interests in joint ventures to the extent that it is not probable that the temporary difference will reverse in the foreseeable future.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets for deductible temporary differences are only recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that there will be sufficient taxable profit against which all or part of the deferred tax assets can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized only to the extent that it is probable that the deferred tax assets can be recovered by future taxable profits.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

The Group recognizes an asset or liability for the effect of uncertainty in income taxes measured at the reasonable estimate for uncertain tax positions when it is probable, based on the Group's interpretation of tax laws in which the tax positions will be sustained.

(20) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury stock. Diluted earnings per share is calculated by adjusting the effects of all dilutive potential ordinary shares.

(21) Equity

(Common stock)

The amount of common stock issued by the Company is recognized as “Capital stock” and “Capital surplus” in the consolidated statement of financial position. Direct costs related to the issuance of common stock and stock options are deducted from "Capital surplus."

(Treasury stock)

Treasury stock is measured at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of treasury stock. Any difference between the carrying amount and the consideration on sale is recognized as capital surplus.

(22) Dividends

Dividends to the shareholders of the Company are recognized as liabilities in the period in which the Board of Directors’ meeting approves the distribution.

(23) Fair value measurements

Certain assets and liabilities are measured at fair value. The fair values of these assets and liabilities have been determined using valuation methodologies such as the market approach, the income approach and the cost approach.

There are three levels of inputs that may be used to measure fair value.

Level 1 – quoted prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

The fair value of financial instruments categorized as Level 3 is measured in accordance with the Group's accounting policies. In measuring the fair value, the valuation methodologies and inputs which reflect the nature, characteristics and risks of each financial instrument most appropriately are used. The results of the fair value measurement of financial instruments at the end of each reporting period are reviewed and approved by management.

4. Significant Accounting Estimates and Judgments involving estimations

In preparing the consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates and assumptions that have an effect on the application of accounting policies as well as the reported amounts of assets, liabilities, revenues and expenses. Actual operating results may differ from these estimates.

The estimates and the underlying assumptions are continuously reviewed. The effects of revisions to the accounting estimates are recognized in the period in which such estimates are revised as well as in the future periods.

Significant estimates and assumptions that have material effects on the consolidated financial statements of the Group are as follows:

- Scope of consolidation: Note 3 “Significant Accounting Policies” (1) Basis of consolidation
- Revenue recognition and measurement: Note 3 “Significant Accounting Policies” (17) Revenue
- Collectability of trade and other receivables: Note 3 “Significant Accounting Policies” (4) Financial instruments, Note 9 “Trade and Other Receivables” and Note 41 “Financial Instruments”
- Valuation of inventories: Note 3 “Significant Accounting Policies” (6) Inventories and Note 11 “Inventories”
- Estimates of useful lives and residual values of non-current assets: Note 3 “Significant Accounting Policies” (7) Property, plant and equipment to (11) Leases, Note 14 “Property, Plant and Equipment,” Note 15 “Investment Property” and Note 16 “Goodwill and Intangible Assets”
- Impairment losses of property, plant and equipment, intangible assets, including goodwill, and investment property: Note 3 “Significant Accounting Policies” (12) Impairment of non-financial assets and Note 17 "Impairment of Non-Financial Assets”
- Fair value of financial instruments: Note 3 “Significant Accounting Policies” (4) Financial instruments and (23) Fair value measurements and Note 41 “Financial Instruments”
- Recoverability of deferred tax assets: Note 3 “Significant Accounting Policies” (19) Income taxes and Note 20 “Income Taxes”
- Recognition and measurement of provisions: Note 3 “Significant Accounting Policies” (16) Provisions and Note 26 “Provisions”
- Measurement of defined benefit obligation: Note 3 “Significant Accounting Policies” (14) Employee benefits and Note 25 “Employee Benefits”

5. New Standards Not Yet Adopted

By the date of approval of the consolidated financial statements, the following new or revised standards and interpretations were issued. However, such standards and interpretations have not yet been adopted by the Group.

IFRS		Date of mandatory adoption (from the year beginning)	To be adopted by the Group from the year ending	Description of new standards and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	Provides accounting treatment for recognizing revenue and the disclosure thereof
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Provides accounting treatment for leases and the disclosure thereof

In relation to adoption of IFRS 15 “Revenue from Contracts with Customers,” the main change that will affect the Group is the accounting treatment of consideration payable to customers. A part of expenses, which were recognized as “Selling, general and administrative expenses,” will be reclassified as “Reduction of revenue” or “Cost of sales.” The Group estimates that the main impact on the consolidated financial statements for the year ending March 31, 2019 will be to decrease “Revenue” by approximately ¥5,400 million ($50,943 thousand). There will be immaterial impact on “Operating profit.”

The Group is currently assessing the possible impact that IFRS 16 “Leases” will have on the consolidated financial statements and is unable to estimate the impact at present.

6. Segment Information

(1) Outline of reportable segments

Reportable segments of the Group are the components of the Group for which discrete financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate management resources and in assessing performance.

The Group's reportable segments are consistent with its businesses. The Group formulates comprehensive strategies for its products and services in Japan and overseas to develop business activities in six segments: “Printing & Solutions”, “Personal & Home”, “Machinery”, “Network & Contents”, “Domino”, and “Others”.

“Printing & Solutions” consists of sale and production of communications and printing equipment such as printers and All-in-Ones, and of sale and production of electronic stationery products. “Personal & Home” consists of sale and production of home sewing machines. “Machinery” consists of sale and production of industrial sewing machines, garment printers, machine tools, reducers and gears. “Network & Contents” consists of sale and production of online karaoke systems, and of content distribution services. “Domino” consists of sale and production of industrial printing equipment.

Reportable segment profit or loss is measured on the basis of operating profit in the consolidated statement of income. Business segment profit or loss is calculated by subtracting the cost of sales and selling, general and administrative expenses from Revenue for each reportable segment.

(2) Segment revenue and results

The Group's revenue and results by reportable segment are as follows.

Intersegment revenues are based on prevailing market prices.

FY2016 (Year Ended March 31, 2017)

(Millions of yen)

	Reportable segment						Total	Reconciliations (Note 2)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Revenue									
Customers	383,628	44,409	90,944	49,731	59,354	13,117	641,185	―	641,185
Intersegment	―	―	―	―	―	14,621	14,621	(14,621)	―
Total	383,628	44,409	90,944	49,731	59,354	27,738	655,806	(14,621)	641,185
Segment profit	45,654	2,038	6,177	2,213	4,177	697	60,958	(199)	60,759
Other income and expenses	(133)	(158)	(197)	(1,358)	189	52	(1,606)	―	(1,606)
Operating profit	45,520	1,880	5,980	854	4,366	749	59,352	(199)	59,152
Finance income and expenses									1,952
Share of profit/(loss) of investments accounted for using the equity method									152
Profit before income taxes									61,257

Other items

	Reportable segment						Total	Reconciliations (Note 4)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Depreciation	18,304	1,333	3,738	5,459	4,031	944	33,811	―	33,811
Impairment losses	62	0	1	281	60	0	406	―	406
Capital expenditure (Note 3)	10,770	891	4,624	4,495	4,613	328	25,723	2,921	28,644

(Note)

1) “Others” consists of real estate and other areas of business.

2) Reconciliation amount of ¥(199) million for segment profit (operating profit) is for the elimination of intersegment transactions.

3) Capital expenditure represents increases in property, plant and equipment, intangible assets, and investment property.

4) Reconciliation amount of ¥2,921 million for an increase in property, plant and equipment and intangible assets is mainly for corporate assets which are not allocated to reportable segments.

FY2017 (Year Ended March 31, 2018)

(Millions of yen)

	Reportable segment						Total	Reconciliations (Note 2)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Revenue									
Customers	412,165	44,466	127,299	49,052	68,390	11,623	712,997	—	712,997
Intersegment	—	—	—	—	—	12,033	12,033	(12,033)	—
Total	412,165	44,466	127,299	49,052	68,390	23,656	725,031	(12,033)	712,997
Segment profit	52,890	1,981	14,426	2,663	4,640	736	77,337	(107)	77,229
Other income and expenses	(5,536)	(929)	(295)	(1,319)	(641)	165	(8,557)	—	(8,557)
Operating profit	47,353	1,051	14,131	1,343	3,998	901	68,780	(107)	68,672
Finance income and expenses									924
Share of profit/(loss) of investments accounted for using the equity method									72
Profit before income taxes									69,669

Other items

	Reportable segment						Total	Reconciliations (Note 4)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Depreciation	17,709	1,185	3,938	5,667	4,730	908	34,141	—	34,141
Impairment losses	—	—	30	1,192	—	—	1,223	—	1,223
Capital expenditure (Note 3)	15,151	923	3,559	6,456	4,622	359	31,073	2,920	33,993

(Note)

1) “Others” consists of real estate and other areas of business.

2) Reconciliation amount of ¥(107) million for segment profit (operating profit) is for the elimination of intersegment transactions.

3) Capital expenditure represents increases in property, plant and equipment, intangible assets, and investment property.

4) Reconciliation amount of ¥2,920 million for an increase in property, plant and equipment and intangible assets is mainly for corporate assets which are not allocated to reportable segments.

FY2017 (Year Ended March 31, 2018)

(Thousands of U.S. dollars)

	Reportable segment						Total	Reconciliations (Note 2)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Revenue									
Customers	3,888,349	419,491	1,200,934	462,755	645,189	109,651	6,726,387	—	6,726,387
Intersegment	—	—	—	—	—	113,519	113,519	(113,519)	—
Total	3,888,349	419,491	1,200,934	462,755	645,189	223,170	6,839,915	(113,519)	6,726,387
Segment profit	498,962	18,689	136,094	25,123	43,774	6,943	729,594	(1,009)	728,575
Other income and expenses	(52,226)	(8,764)	(2,783)	(12,443)	(6,047)	1,557	(80,726)	—	(80,726)
Operating profit	446,726	9,915	133,311	12,670	37,717	8,500	648,868	(1,009)	647,849
Finance income and expenses									8,717
Share of profit/(loss) of investments accounted for using the equity method									679
Profit before income taxes									657,255

Other items

	Reportable segment						Total	Reconciliations (Note 4)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Depreciation	167,066	11,179	37,151	53,462	44,623	8,566	322,085	—	322,085
Impairment losses	—	—	283	11,245	—	—	11,538	—	11,538
Capital expenditure (Note 3)	142,934	8,708	33,575	60,906	43,604	3,387	293,142	27,547	320,689

(Note)

1) “Others” consists of real estate and other areas of business.

2) Reconciliation amount of $(1,009) thousand for segment profit (operating profit) is for the elimination of intersegment transactions.

3) Capital expenditure represents increases in property, plant and equipment, intangible assets, and investment property.

4) Reconciliation amount of $27,547 thousand for an increase in property, plant and equipment and intangible assets is mainly for corporate assets which are not allocated to reportable segments.

(3) Information about products and services

Revenue from customers by product and service is as follows:

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
	(Millions of yen)		(Thousands of U.S. dollars)
Printing & Solutions			
Communications and printing equipment	338,562	364,903	3,442,481
Electronic stationery	45,066	47,262	445,868
Printing & Solutions total	383,628	412,165	3,888,349
Personal & Home	44,409	44,466	419,491
Machinery			
Industrial sewing machines	26,802	31,094	293,340
Machine tools	45,352	76,018	717,151
Industrial parts	18,789	20,186	190,434
Machinery total	90,944	127,299	1,200,934
Network & Contents	49,731	49,052	462,755
Domino	59,354	68,390	645,189
Others	13,117	11,623	109,651
Total	641,185	712,997	6,726,387

(4) Information about geographical areas

Revenue and non-current assets by geographical area are as follows.

Revenue from customers

(Millions of yen) (Thousands of U.S. dollars)

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Japan	119,525	121,008	1,141,585
Overseas			
The Americas			
U.S.A.	158,224	160,349	1,512,726
Others	44,375	49,253	464,651
The Americas total	202,599	209,602	1,977,377
Europe			
Germany	45,038	51,572	486,528
Others	116,054	129,651	1,223,123
Europe total	161,092	181,224	1,709,660
Asia and others			
China	73,216	108,349	1,022,160
Others	84,751	92,812	875,585
Asia and others total	157,968	201,162	1,897,755
Overseas total	521,660	591,989	5,584,802
Total	641,185	712,997	6,726,387

(Note) Revenue is classified into countries and regions based on the location of customers.

Non-current assets

	FY2016 (As of March 31, 2017)	(Millions of yen) FY2017 (As of March 31, 2018)	(Thousands of U.S. dollars) FY2017 (As of March 31, 2018)
Japan	85,653	84,570	797,830
Overseas			
The Americas			
U.S.A.	7,849	7,621	71,896
Others	1,358	1,538	14,509
The Americas total	9,208	9,160	86,415
Europe			
U.K.	134,936	142,779	1,346,972
Others	5,148	5,536	52,226
Europe total	140,085	148,316	1,399,208
Asia and others			
China	14,004	13,145	124,009
Vietnam	13,394	14,050	132,547
Philippines	11,964	11,955	112,783
Others	2,308	2,320	21,887
Asia and others total	41,671	41,473	391,255
Overseas total	190,964	198,949	1,876,877
Total	276,617	283,520	2,674,717

(Note) Non-current assets are presented based on the physical location of assets. Financial instruments, deferred tax assets and retirement benefit assets are not included.

(5) Information about major customers

The description is omitted because there is no external customer whose revenue exceeds 10% or more of the Group's revenue.

7. Business Combinations

FY2016 (Year ended March 31, 2017)

Disclosure is omitted due to the immateriality.

FY2017 (Year ended March 31, 2018)

Disclosure is omitted due to the immateriality.

8. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	FY2016 (As of March 31, 2017)	(Millions of yen) FY2017 (As of March 31, 2018)	(Thousands of U.S. dollars) FY2017 (As of March 31, 2018)
Cash and cash equivalents			
Cash and deposits	112,032	121,384	1,145,132
Total	112,032	121,384	1,145,132

The balance of "Cash and cash equivalents" in the consolidated statement of financial position as of March 31, 2017 and March 31, 2018, respectively, reconciles the balance of "Cash and cash equivalents" stated in the consolidated statement of cash flows.

9. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	FY2016 (As of March 31, 2017)	(Millions of yen) FY2017 (As of March 31, 2018)	(Thousands of U.S. dollars) FY2017 (As of March 31, 2018)
Notes receivable	5,542	6,914	65,226
Accounts receivable	91,935	98,468	928,943
Other	1,327	1,669	15,745
Allowance for doubtful accounts	(2,693)	(2,428)	(22,906)
Total	96,112	104,624	987,019

The receivables expected to be collected more than one year after March 31, 2017 and March 31, 2018 are ¥651 million and ¥470 million ($4,434 thousand), respectively.

10. Other Financial Assets

The breakdown of other financial assets is as follows:

	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Current assets			
Financial assets measured at amortized cost	8,544	7,862	74,170
Financial assets measured at FVTPL			
Derivatives	1,059	1,359	12,821
Items other than derivatives	97	50	472
Allowance for doubtful accounts	(0)	(0)	(0)
Total	9,701	9,272	87,472
Non-current assets			
Financial assets measured at amortized cost	9,877	15,518	146,396
Financial assets measured at FVTPL			
Items other than derivatives	3,045	3,201	30,198
Financial assets measured at FVTOCI			
Equity instruments	17,178	20,406	192,509
Allowance for doubtful accounts	(460)	(445)	(4,198)
Total	29,640	38,681	364,915

Refer to Note 41 “Financial Instruments” for the names and fair values of major securities held as financial assets measured at fair value through other comprehensive income.

11. Inventories

The breakdown of inventories is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Merchandise and finished goods	74,523	76,723	723,802
Work in process	10,820	10,843	102,292
Raw materials and supplies	27,089	29,400	277,358
Total	112,432	116,967	1,103,462

The amounts of the inventories recognized in cost of sales for the years ended March 31, 2017 and 2018 are ¥364,659 million and ¥408,531 million ($3,854,066 thousand), respectively.

Also, the amounts of the write-down of inventories recognized as cost of sales are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Write-down	3,507	3,685	34,764

12. Other Assets

The breakdown of other assets is as follows:

	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Other current assets			
Prepaid expenses	4,915	5,640	53,208
Advance payments	766	677	6,387
Consumption taxes receivable	5,319	4,743	44,745
Income taxes receivable	358	75	708
Other	3,341	3,074	29,000
Total	14,701	14,211	134,066
Other non-current assets			
Long-term prepaid expenses	1,621	2,082	19,642
Retirement benefit assets	2,080	1,999	18,858
Insurance funds	2,345	2,455	23,160
Other	570	737	6,953
Total	6,617	7,275	68,632

13. Non-current Assets or Disposal Groups classified as Held for Sale and Directly Related Liabilities

The breakdown of non-current assets or disposal groups that are classified as held for sale and directly related liabilities is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Non-current assets held for sale			
Property, plant and equipment	245	174	1,642
Total	245	174	1,642
Liabilities directly associated with assets classified as held for sale			
Other current liabilities	20	27	255

Non-current assets held for sale and liabilities directly associated with assets classified as held for sale as of March 31, 2018 are mainly related to property, plant and equipment of Brother Industries Technology (Malaysia), which ceased operations as of March 31, 2017, that meet the criteria for assets classified as held for sale. The sale will be completed during the year ending March 31, 2019.

14. Property, Plant and Equipment

(1) Movement

The movement of the carrying amount of property, plant and equipment is as follows:

(Millions of yen)

Cost	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2016	16,032	112,070	84,052	122,112	2,710	336,978
Acquisitions	0	2,017	4,849	9,179	4,143	20,191
Acquisitions through business combinations	—	1	2	—	—	4
Sales or disposals	—	(860)	(4,738)	(8,623)	(97)	(14,319)
Foreign exchange differences	(683)	(1,321)	(1,247)	(1,340)	0	(4,593)
Other	(115)	3,245	240	361	(5,100)	(1,368)
Balance as of March 31, 2017	15,233	115,153	83,160	121,689	1,656	336,893
Acquisitions	2	2,449	4,272	13,400	4,709	24,834
Acquisitions through business combinations	73	104	1	169	—	348
Sales or disposals	(29)	(425)	(2,980)	(6,561)	(44)	(10,041)
Foreign exchange differences	68	(690)	(312)	589	20	(324)
Other	117	2,503	1,276	514	(4,378)	33
Balance as of March 31, 2018	15,466	119,094	85,419	129,800	1,962	351,743

(Note) Transfers from construction in progress to each item are included in “Other.”

(Thousands of U.S. dollars)

Cost	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of March 31, 2017	143,708	1,086,349	784,528	1,148,009	15,623	3,178,236
Acquisitions	19	23,104	40,302	126,415	44,425	234,283
Acquisitions through business combinations	689	981	9	1,594	—	3,283
Sales or disposals	(274)	(4,009)	(28,113)	(61,896)	(415)	(94,726)
Foreign exchange Differences	642	(6,509)	(2,943)	5,557	189	(3,057)
Other	1,104	23,613	12,038	4,849	(41,302)	311
Balance as of March 31, 2018	145,906	1,123,528	805,840	1,224,528	18,509	3,318,330

(Millions of yen)

Accumulated depreciation and accumulated impairment losses	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2016	(837)	(53,931)	(58,296)	(94,992)	(0)	(208,058)
Depreciation	—	(4,617)	(6,073)	(13,011)	—	(23,703)
Impairment losses	—	(231)	(37)	(49)	(0)	(318)
Sales or disposals	—	727	4,215	8,194	2	13,139
Foreign exchange differences	(0)	566	621	895	(2)	2,080
Other	70	736	(74)	1	(0)	732
Balance as of March 31, 2017	(767)	(56,750)	(59,644)	(98,963)	(0)	(216,126)
Depreciation	—	(4,662)	(6,290)	(12,556)	—	(23,509)
Impairment losses	—	(263)	(54)	(78)	(1)	(398)
Sales or disposals	—	221	2,492	6,188	—	8,901
Foreign exchange differences	2	116	229	(432)	0	(84)
Other	(71)	(161)	35	(5)	(2)	(205)
Balance as of March 31, 2018	(837)	(61,500)	(63,233)	(105,847)	(3)	(231,422)

(Note) Depreciation of property, plant and equipment is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

(Thousands of U.S. dollars)

Accumulated depreciation and accumulated impairment losses	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of March 31, 2017	(7,236)	(535,377)	(562,679)	(933,613)	(0)	(2,038,925)
Depreciation	—	(43,981)	(59,340)	(118,453)	—	(221,783)
Impairment losses	—	(2,481)	(509)	(736)	(9)	(3,755)
Sales or disposals	—	2,085	23,509	58,377	—	83,972
Foreign exchange differences	19	1,094	2,160	(4,075)	0	(792)
Other	(670)	(1,519)	330	(47)	(19)	(1,934)
Balance as of March 31, 2018	(7,896)	(580,189)	(596,538)	(998,557)	(28)	(2,183,226)

(Millions of yen)

Carrying amount	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2016	15,195	58,139	25,755	27,119	2,710	128,920
Balance as of March 31, 2017	14,465	58,402	23,515	22,726	1,656	120,767
Balance as of March 31, 2017 (Thousands of U.S. dollars)	136,462	550,962	221,840	214,396	15,623	1,139,311
Balance as of March 31, 2018	14,629	57,594	22,185	23,952	1,958	120,320
Balance as of March 31, 2018 (Thousands of U.S. dollars)	138,009	543,340	209,292	225,962	18,472	1,135,094

(2) Lease assets

The carrying amount of capitalized finance leases included in property, plant and equipment is as follows:

(Millions of yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2016	2,796	5	2,058	4,861
Balance as of March 31, 2017	2,488	2	1,491	3,983
Balance as of March 31, 2017 (Thousands of U.S. dollars)	23,472	19	14,066	37,575
Balance as of March 31, 2018	2,378	11	1,674	4,064
Balance as of March 31, 2018 (Thousands of U.S. dollars)	22,434	104	15,792	38,340

15. Investment Property

(1) Movement

The movement of the carrying amount of investment property and the fair value are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
Cost	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Balance at the beginning of the year	11,315	11,212	105,774
Acquisitions	0	14	132
Sales or disposals	(87)	(5)	(47)
Reclassifications	8	(0)	(0)
Foreign exchange differences	(25)	33	311
Balance at the end of the year	11,212	11,254	106,170

	(Millions of yen)		(Thousands of U.S. dollars)
Accumulated depreciation and accumulated impairment losses	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Balance at the beginning of the year	(4,407)	(4,566)	(43,075)
Depreciation	(228)	(238)	(2,245)
Sales or disposals	74	4	38
Reclassifications	(7)	17	160
Foreign exchange differences	3	(5)	(47)
Balance at the end of the year	(4,566)	(4,788)	(45,170)

Carrying amount and fair value	FY2016 (As of March 31, 2017) (Millions of yen)		FY2017 (As of March 31, 2018) (Millions of yen)		FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	6,646	17,914	6,465	18,675	60,991	176,179

The fair value of investment property is calculated based mainly on the external appraiser's valuation techniques using market prices of comparable assets. The measurement is categorized within Level 3 of the fair value hierarchy.

(2) Income from and expenses for investment property

	FY2016 (Year ended March 31, 2017) (Millions of yen)	FY2017 (Year ended March 31, 2018) (Millions of yen)	FY2017 (Year ended March 31, 2018) (Thousands of U.S. dollars)
Rental income	1,566	1,576	14,868
Direct operating expenses arising from investment property that generated rental income	(672)	(669)	(6,311)
Direct operating expenses arising from investment property that did not generate rental income	(18)	(18)	(170)

The amount of income from investment property and related direct operating expenses are included in “Revenue” and “Cost of sales” in the consolidated statement of income.

16. Goodwill and Intangible Assets

The movement of the carrying amount of goodwill and intangible assets is as follows:

(Millions of yen)

Cost	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of April 1, 2016	117,421	64,361	12,734	664	27,931	22,754	245,866
Acquisitions	—	3,219	7	—	—	3,768	6,995
Internal generation	—	—	—	1,452	—	—	1,452
Acquisitions through business combinations	250	—	—	—	—	—	250
Sales or disposals	(20)	(969)	(2)	—	—	(14)	(1,006)
Foreign exchange differences	(14,703)	(545)	—	(96)	(3,767)	(2,051)	(21,164)
Other	—	2,646	—	13	—	(2,198)	461
Balance as of March 31, 2017	102,947	68,712	12,739	2,034	24,164	22,259	232,857
Acquisitions	—	4,063	10	—	—	4,056	8,130
Internal generation	—	—	—	1,014	—	—	1,014
Acquisitions through business combinations	210	3	—	—	500	—	715
Sales or disposals	—	(562)	(0)	—	—	(13)	(576)
Foreign exchange differences	6,369	411	—	127	1,511	810	9,230
Other	—	2,379	—	—	—	(2,159)	220
Balance as of March 31, 2018	109,527	75,008	12,749	3,176	26,175	24,953	251,591

(Thousands of U.S. dollars)

Cost	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of March 31, 2017	971,198	648,226	120,179	19,189	227,962	209,991	2,196,764
Acquisitions	—	38,330	94	—	—	38,264	76,698
Internal generation	—	—	—	9,566	—	—	9,566
Acquisitions through business combinations	1,981	28	—	—	4,717	—	6,745
Sales or disposals	—	(5,302)	(0)	—	—	(123)	(5,434)
Foreign exchange differences	60,085	3,877	—	1,198	14,255	7,642	87,075
Other	—	22,443	—	—	—	(20,368)	2,075
Balance as of March 31, 2018	1,033,274	707,623	120,274	29,962	246,934	235,406	2,373,500

(Millions of yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of April 1, 2016	(7,377)	(51,463)	(11,860)	(3)	(1,396)	(5,648)	(77,749)
Amortization	—	(5,567)	(220)	(21)	(1,632)	(2,437)	(9,879)
Impairment losses	(1)	(72)	(0)	—	—	(8)	(82)
Sales or disposals	20	881	2	—	—	(18)	884
Foreign exchange differences	5	496	—	(1)	210	229	940
Other	(0)	28	—	—	—	13	42
Balance as of March 31, 2017	(7,353)	(55,697)	(12,078)	(26)	(2,819)	(7,870)	(85,844)
Amortization	—	(5,753)	(184)	(254)	(1,740)	(2,461)	(10,394)
Impairment losses	(696)	(64)	(0)	—	—	(25)	(786)
Sales or disposals	—	531	0	—	—	6	538
Foreign exchange differences	(469)	(355)	—	(2)	(189)	(193)	(1,209)
Other	—	(1)	0	—	—	20	19
Balance as of March 31, 2018	(8,519)	(61,340)	(12,263)	(283)	(4,748)	(10,522)	(97,677)

(Note) Amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

(Thousands of U.S. dollars)

Accumulated amortization and accumulated Impairment losses	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of March 31, 2017	(69,368)	(525,443)	(113,943)	(245)	(26,594)	(74,245)	(809,849)
Amortization	—	(54,274)	(1,736)	(2,396)	(16,415)	(23,217)	(98,057)
Impairment losses	(6,566)	(604)	(0)	—	—	(236)	(7,415)
Sales or disposals	—	5,009	0	—	—	57	5,075
Foreign exchange differences	(4,425)	(3,349)	—	(19)	(1,783)	(1,821)	(11,406)
Other	—	(9)	0	—	—	189	179
Balance as of March 31, 2018	(80,368)	(578,679)	(115,689)	(2,670)	(44,792)	(99,264)	(921,481)

(Millions of yen)

Carrying amount	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of April 1, 2016	110,043	12,898	873	661	26,534	17,105	168,117
Balance as of March 31, 2017	95,594	13,015	660	2,008	21,344	14,389	147,012
Balance as of March 31, 2017 (Thousands of U.S. dollars)	901,830	122,783	6,226	18,943	201,358	135,745	1,386,906
Balance as of March 31, 2018	101,008	13,667	486	2,892	21,427	14,430	153,913
Balance as of March 31, 2018 (Thousands of U.S. dollars)	952,906	128,934	4,585	27,283	202,142	136,132	1,452,009

(Note) Significant intangible assets as of March 31, 2018 are customer related assets. The carrying amount is ¥21,427 million ($202,142 thousand) and the remaining amortization period is 12.25 years.

The research and development expenses are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Research and development expenses	42,547	45,649	430,651

17. Impairment of Non-Financial Assets

The details of assets recognized impairment losses are as follows:
The impairment losses are included in "Other expenses" in the consolidated statement of income.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Property, plant and equipment			
Buildings and structures	231	263	2,481
Machinery, equipment and vehicles	37	54	509
Tools, furniture and fixtures	49	78	736
Construction in progress	—	1	9
Intangible assets			
Goodwill	1	696	6,566
Software	72	64	604
Patent	0	0	0
Other intangible assets	8	25	236
Other	5	38	358
Total of impairment losses	406	1,223	11,538

(1) Cash-generating units

Non-financial assets are grouped into each minimum unit which can be identified as generating relatively independent cash inflows. Each unit has been set based on the operating business segment.

For any assets held for sale or investment property, the individual assets are tested for impairment.

(2) Impairment loss

For the year ended March 31, 2017, there was no significant impairment loss.

For the year ended March 31, 2018, an impairment loss of ¥1,192 million ($11,245 thousand) was recognized for the cash-generating unit of the music & video software production and sales business, the karaoke shops and others that had a lower estimated amount of discounted future cash flows than the carrying amount of assets in the Network & Contents business segment (buildings and structures: ¥263 million ($2,481 thousand), machinery, equipment and vehicles: ¥23 ($217 thousand), tools, furniture and fixtures: ¥78 million ($736 thousand), construction in progress: ¥1 ($9 thousand), goodwill: ¥696 million ($6,566 thousand), software: ¥64 million ($604 thousand), patents: ¥0 million ($0 thousand), other intangible assets: ¥25 million ($236 thousand) and other non-current assets: ¥38 million ($358 thousand)), due to a decrease in expected revenue.

The recoverable amount of the assets is measured using the value in use. The value in use is calculated by discounting the estimated future cash flows based on the business plan for the next five years approved by management to the present value by the weighted-average cost of capital (WACC) of 8.6% of the cash-generating unit. Cash flows during the business plan period are estimated on the basis of the growth rate, etc., projected in each product market.

(3) Impairment test for goodwill

At the Group level, goodwill is tested for impairment annually or whenever there is any indication of impairment. The recoverable amount of goodwill is measured at the value in use.

Goodwill is allocated to cash-generating units or groups of cash-generating units on acquisition dates based on the allocation of expected benefits from business combinations for the purpose of impairment testing.

The carrying amounts of goodwill allocated to each cash-generating unit are as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Domino	94,618	100,518	948,283
Other	976	489	4,613
Total	95,594	101,008	952,906

The value in use of goodwill in the Domino business is calculated by discounting the estimated cash flows based on the business plan for the next five years approved by management to the present value by the weighted-average cost of capital (WACC) of the cash-generating unit. The pre-tax discount rate used for the calculation of the value in use is 10.61% for the year ended March 31, 2017 and 11.08% for the year ended March 31, 2018.

Future cash flows are estimated on the basis of the long-term average growth rate, etc., projected in each product market. The growth rate range used to measure going-concern value is 3.38 to 5.28% for the year ended March 31, 2017 and 3.33 to 8.60% for the year ended March 31, 2018.

The recoverable amount of goodwill exceeds the carrying amount by ¥17,938 million and ¥16,881 million ($159,255 thousand) as of March 31, 2017 and 2018, respectively. However, impairment loss may arise if changes are made to the key assumptions which are the basis of value in use. Such loss may be incurred if the discount rate had increased by 0.80% or the growth rate had decreased by 1.58% for the year ended March 31, 2017, or the discount rate had increased by 0.67% or the growth rate had decreased by 1.39% for the year ended March 31, 2018.

There is no significant goodwill other than that presented above.

18. Investments Accounted for Using the Equity Method

For associates in which the Group holds less than 20% of the voting rights, the Group has judged that it has significant influence over them by its involvement with their Boards of Directors and/or management.

The carrying amount of investments in associates is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Carrying amount total	1,506	1,498	14,132

The share amount of comprehensive income for the year from associates is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
The share amount of earnings of associates from continuing operations	152	72	679
The share amount of other comprehensive income from associates	(21)	(2)	(19)
The share amount of comprehensive income from associates	131	69	651

19. Interests in Unconsolidated Structured Entities

The Group has investment funds as unconsolidated structured entities. The Company invests in investment funds in the United States, Japan and other Asian countries mainly for the purpose of new business development and information collection.

Those funds are formed as a limited partnership venture fund, or investment limited partnership, and the Company invests in the fund as a limited liability partner.

The size of the unconsolidated structured entities, the carrying amount of the Company’s investment in the entities and the potential maximum loss exposure to the Company are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Total assets of unconsolidated structured entities	35,237	46,101	434,915
The Company’s maximum exposure to loss			
The carrying amount of the investments recognized by the Company	1,955	2,581	24,349
Commitments related to additional investments	921	347	3,274
Total	2,877	2,928	27,623

The Company recognizes investments in “Other financial assets (non-current assets)” in the consolidated statement of financial position. The Company recognizes no liabilities for the unconsolidated structured entities.

The potential maximum exposure to loss resulting from the interests in the structured entities is limited to the sum of the carrying amount of the Company’s investments and commitments related to additional investments.

The Company’s maximum exposure to loss indicates a possible maximum loss amount and does not represent the amount of loss expected from the interests in the structured entities.

The Company neither has provided nor intends to provide financial support or other significant support to the unconsolidated structured entities without a contractual obligation.

20. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

The breakdown of changes in deferred tax assets and deferred tax liabilities is as follows:

FY2016 (Year ended March 31, 2017)

(Millions of yen)

	Balance as of March 31, 2016	Cumulative effect of adoption of the new accounting standards	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences	Balance as of March 31, 2017
Deferred tax assets						
Inventories	10,665	—	(716)	—	(83)	9,865
Retirement benefit liabilities	5,743	—	645	(44)	(261)	6,082
Property, plant and equipment	2,851	—	1,326	—	(216)	3,960
Accrued bonuses	1,928	—	547	—	10	2,485
Accrued unused paid absences	1,877	—	183	—	(9)	2,052
Accrued expenses	1,329	—	(342)	—	41	1,028
Provisions	1,210	—	0	—	(8)	1,203
Other	2,972	231	(160)	223	121	3,387
Subtotal	28,578	231	1,484	178	(406)	30,066
Deferred tax liabilities						
Assets identified by business combination	(8,094)	—	783	—	1,084	(6,225)
Property, plant and equipment	(3,938)	—	(72)	—	141	(3,870)
Retirement benefit assets	(2,830)	—	49	(6)	115	(2,671)
Reserve for deferred gains on fixed assets	(2,744)	—	665	—	—	(2,078)
Securities withdrawn from retirement benefit trust	(2,453)	—	—	—	—	(2,453)
Unrealized gains/(losses) on available-for-sale securities	(1,909)	1,909	—	—	—	—
Equity instruments designated as FVTOCI	—	(1,690)	—	(872)	—	(2,562)
Other	(947)	(369)	(51)	—	12	(1,356)
Subtotal	(22,918)	(150)	1,374	(878)	1,354	(21,219)
Total	5,660	80	2,859	(700)	947	8,847

FY2017 (Year ended March 31, 2018)

(Millions of yen)

	Balance as of April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Business combination	Foreign exchange differences	Balance as of March 31, 2018
Deferred tax assets						
Inventories	9,865	(1,437)	—	—	3	8,431
Retirement benefit liabilities	6,082	(107)	(402)	47	174	5,794
Property, plant and equipment	3,960	(474)	—	51	11	3,549
Accrued bonuses	2,485	112	—	1	9	2,608
Accrued unused paid absences	2,052	(9)	—	—	(3)	2,038
Accrued expenses	1,028	(59)	—	8	(56)	921
Provisions	1,203	(303)	—	6	5	911
Other	3,387	105	148	3	(72)	3,572
Subtotal	30,066	(2,173)	(254)	119	70	27,828
Deferred tax liabilities						
Assets identified by business combination	(6,225)	670	—	(197)	(398)	(6,151)
Property, plant and equipment	(3,870)	72	—	(2)	38	(3,762)
Equity instruments designated as FVTOCI	(2,562)	—	(1,169)	—	(6)	(3,738)
Retirement benefit Assets	(2,671)	76	7	—	(2)	(2,590)
Securities withdrawn from retirement benefit trust	(2,453)	—	—	—	—	(2,453)
Reserve for deferred gains on fixed assets	(2,078)	126	—	—	—	(1,952)
Other	(1,356)	(537)	—	—	(53)	(1,947)
Subtotal	(21,219)	407	(1,161)	(200)	(423)	(22,596)
Total	8,847	(1,765)	(1,415)	(80)	(352)	5,232

(Thousands of U.S. dollars)

	Balance as of April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Business combination	Foreign exchange differences	Balance as of March 31, 2018
Deferred tax assets						
Inventories	93,066	(13,557)	—	—	28	79,538
Retirement benefit liabilities	57,377	(1,009)	(3,792)	443	1,642	54,660
Property, plant and equipment	37,358	(4,472)	—	481	104	33,481
Accrued bonuses	23,443	1,057	—	9	85	24,604
Accrued unused paid absences	19,358	(85)	—	—	(28)	19,226
Accrued expenses	9,698	(557)	—	75	(528)	8,689
Provisions	11,349	(2,858)	—	57	47	8,594
Other	31,953	991	1,396	28	(679)	33,698
Subtotal	283,642	(20,500)	(2,396)	1,123	660	262,528
Deferred tax liabilities						
Assets identified by business combination	(58,726)	6,321	—	(1,858)	(3,755)	(58,028)
Property, plant and equipment	(36,509)	679	—	(19)	358	(35,491)
Equity instruments designated as FVTOCI	(24,170)	—	(11,028)	—	(57)	(35,264)
Retirement benefit Assets	(25,198)	717	66	—	(19)	(24,434)
Securities withdrawn from retirement benefit trust	(23,142)	—	—	—	—	(23,142)
Reserve for deferred gains on fixed assets	(19,604)	1,189	—	—	—	(18,415)
Other	(12,792)	(5,066)	—	—	(500)	(18,368)
Subtotal	(200,179)	3,840	(10,953)	(1,887)	(3,991)	(213,170)
Total	83,462	(16,651)	(13,349)	(755)	(3,321)	49,358

	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Deferred tax assets	16,691	13,489	127,255
Deferred tax liabilities	(7,843)	(8,257)	(77,896)
Net amount	8,847	5,232	49,358

Deductible temporary differences and unused tax losses for which no deferred tax assets are recognized are as follows:

	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Deductible temporary differences	75,997	62,565	590,236
Unused tax losses	34,174	26,182	247,000
Total	110,172	88,747	837,236

Expiration of unused tax losses for which no deferred tax assets are recognized are as follows:

	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
1st year	8,211	12,943	122,104
2nd year	11,870	7,659	72,255
3rd year	7,665	1,269	11,972
4th year	4,128	127	1,198
5th year and thereafter	2,297	4,183	39,462
Total	34,174	26,182	247,000

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities are not recognized as of March 31, 2017 and March 31, 2018 are ¥138,906 million and ¥148,464 million ($1,400,604 thousand), respectively. Deferred tax liabilities are not recognized for the above temporary differences as the Group is able to control the timing of the reversal of such temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(2) Income tax expenses

The breakdown of income tax expenses is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Current tax expenses			
Current year	16,209	17,562	165,679
Prior years	467	(131)	(1,236)
Subtotal	16,676	17,431	164,443
Deferred tax expenses			
Origination and reversal of temporary differences	(81)	335	3,160
Changes in tax rates	(277)	1,582	14,925
Recognition of previously unrecognized deferred tax assets	(2,555)	(365)	(3,443)
Reversal of deferred tax assets recognized in the prior years	54	213	2,009
Subtotal	(2,859)	1,765	16,651
Total	13,817	19,196	181,094

Current tax expenses include previously unrecognized tax benefits from tax loss carryforwards, tax credits and deductible temporary differences. Current tax expenses decreased by those tax benefits by ¥3,268 million and ¥1,389 million ($13,104 thousand) for the years ended March 31, 2017 and 2018, respectively.

The reconciliation between the statutory tax rates and the average effective tax rates is as follows:

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)
Statutory tax rate	30.70%	30.70%
Lower income tax rates applicable to income in certain foreign subsidiaries	(2.06)%	(4.34)%
Tax credit for R&D expenses	(3.30)%	(3.65)%
Changes in tax rates	(0.45)%	2.27%
Expenses not deductible for tax purposes	0.40%	1.36%
Withholding taxes on distributions	0.96%	1.08%
Changes in the assessment for the recoverability of deferred tax assets	(4.08)%	(0.22)%
Other	0.38%	0.35%
Average effective tax rate	22.56%	27.55%

The Company and its domestic subsidiaries are subject mainly to corporate tax, residential tax and enterprise tax, and the effective tax rate calculated based on these for the years ended March 31, 2017 and 2018 is 30.70%. Overseas subsidiaries are subject to income tax at their respective locations.

In the U.S., the tax reform bill was enacted on December 22, 2017, lowering the federal corporate tax rate that is applicable from January 1, 2018 onward. Accordingly, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities for the current fiscal year was changed to the rate on the basis of the amended federal corporate tax rate of 21%. Due to the change, deferred tax expenses for the year ended March 31, 2018 increased by ¥1,753 million ($16,538 thousand).

21. Bonds and borrowings

(1) Breakdown of financial liabilities

The breakdown of bonds and borrowings is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)		
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)	Average interest rate (%)	Maturity date
Short-term bank borrowings	402	1,176	11,094	0.66	—
Current portion of long-term borrowings	19,373	271	2,557	1.57	—
Current portion of bonds	733	20,446	192,887	0.15	—
Long-term borrowings	77,161	74,530	703,113	1.53	2019 to 2023
Bonds	39,921	20,021	188,877	0.28	2020 to 2021
Short-term lease obligations	1,492	1,475	13,915	2.00	—
Long-term lease obligations	2,781	3,104	29,283	1.76	2021 to 2023
Other	9,750	10,789	101,783	—	—
Total	151,616	131,815	1,243,538	—	—
Bonds and borrowings					
Current liabilities	20,509	21,894	206,547	—	—
Non-current liabilities	117,082	94,552	892,000	—	—
Other financial liabilities					
Current liabilities	3,053	3,328	31,396	—	—
Non-current liabilities	10,969	12,040	113,585	—	—
Total	151,616	131,815	1,243,538	—	—

(Note)

1) The average interest rate represents the weighted-average interest rate to the ending balance of bonds, borrowings and lease obligations.

2) The Group uses interest rate swaps, etc. to manage interest rate risk. The average interest rate of long-term borrowings after conversion to a fixed rate is 0.30%.

3) Of the Group's long-term borrowings, ¥73,905 million ($697,217 thousand) is subject to financial covenants. The Group complies with major financial covenants as follows:

- The total equity in the Group's consolidated statement of financial position at the end of the fiscal year should not be below 75% of the total equity in the consolidated statement of financial position for the most recent fiscal year, or should not be below 75% of the total equity in the consolidated balance sheet as of March 31, 2015 under Japanese GAAP.
- Loss before income taxes in the consolidated statement of income for each reporting period should not be recognized for two consecutive fiscal years.

A summary of terms and conditions for the issuance of corporate bonds is as follows:

Name	Type	Issue date	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)	Interest rate (%)	Collateral	Maturity date
BROTHER INDUSTRIES, LTD.	The 5th unsecured straight bond	November 26, 2015	19,966	19,992 (19,992)	188,604 (188,604)	0.150	None	November 26, 2018
BROTHER INDUSTRIES, LTD.	The 6th unsecured straight bond	November 26, 2015	19,954	19,971	188,406	0.285	None	November 26, 2020
BROTHER INDUSTRIES, LTD.	Loan Notes 2020 (unsecured bonds)	June 18, 2015	733 [5,237 thousand Pound Sterling]	433 (433) [2,912 thousand Pound Sterling]	4,085 (4,085)	—	None	June 18, 2020
GRANDPRIX LEISURE SYSTEM CO., LTD.	The 3rd unsecured straight bond	August 25, 2016	—	70 (20)	660 (189)	0.140	None	August 25, 2021
Total			40,654	40,468 (20,446)	381,774 (192,887)	—	—	—

(Note) Figures in parentheses represent current portion of bonds.

(2) Assets pledged as collateral

There are no assets pledged as collateral for bonds and borrowings.

22. Leases

(1) Finance lease obligations
As lessee
The details of finance lease obligations are as follows:

	Minimum lease payments			Present value of minimum lease payments		
	(Millions of yen)		(Thousands of U.S. dollars)	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Within 1 year	1,555	1,542	14,547	1,492	1,475	13,915
1 to 5 years	2,848	3,201	30,198	2,781	3,104	29,283
Over 5 years	—	—	—	—	—	—
Total	4,404	4,743	44,745	4,273	4,579	43,198
Prospective finance expenses	(130)	(164)	(1,547)	—	—	—
Present value of lease obligations	4,273	4,579	43,198	4,273	4,579	43,198

The Group leases assets such as buildings and structures as lessee.

Some lease contracts include renewal options or purchase options. There are no sublease contracts, unpaid variable lease payments, escalation clauses (clauses that prescribe increases in the lease contract amount) or restrictions on dividends, additional loans, additional leases, etc., imposed by lease contracts.

Lease obligations are included in “Other financial liabilities” in the consolidated statement of financial position.

(2) Operating lease contracts
<1> As lessee
Future minimum lease payments under non-cancellable operating leases are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Within 1 year	3,363	4,150	39,151
1 to 5 years	6,923	9,626	90,811
Over 5 years	1,146	2,137	20,160
Total	11,433	15,913	150,123

Minimum lease payments and contingent rents for operating lease contracts recognized as expenses are as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Minimum lease payments	6,078	6,105	57,594
Sublease payments	452	504	4,755
Contingent lease payments	11	44	415
Total	6,541	6,654	62,774

The Group leases assets such as buildings and structures as lessee.

Some lease contracts include renewal options or purchase options. There are no unpaid variable lease payments, escalation clauses (clauses that prescribe increases in the lease contract amount) or restrictions on dividends, additional loans, additional leases, etc., imposed by lease contracts.

<2> As lessor

Income relating to future minimum lease payments under non-cancellable operating leases is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Within 1 year	1,643	1,684	15,887
1 to 5 years	3,562	2,789	26,311
Over 5 years	578	339	3,198
Total	5,784	4,813	45,406

The Group mainly rents industrial printing equipment as lessor.

23. Trade and Other Payables

The breakdown of trade and other payables is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Notes payable - trade	731	1,441	13,594
Accounts payable - trade	44,202	42,384	399,849
Accounts payable - other	21,335	24,363	229,840
Total	66,268	68,189	643,292

24. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

(Millions of yen) (Thousands of U.S. dollars)

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Current liabilities			
Lease obligations	1,492	1,475	13,915
Financial liabilities measured at amortized cost	119	309	2,915
Financial liabilities measured at FVTPL			
Derivatives	1,441	1,543	14,557
Total	3,053	3,328	31,396
Non-current liabilities			
Lease obligations	2,781	3,104	29,283
Financial liabilities measured at amortized cost	2,376	2,220	20,943
Financial liabilities measured at FVTPL			
Derivatives	5,812	6,715	63,349
Total	10,969	12,040	113,585

25. Employee Benefits

The Company, and certain domestic and foreign subsidiaries provide funded and unfunded defined benefit plans and defined contribution plans.

Other certain domestic and foreign subsidiaries provide funded and unfunded defined benefit plans or defined contribution plans.

(1) Defined benefit plans

The Company has adopted a cash balance plan as a defined benefit plan. Benefits are calculated based on pay credit and interest credit provided according to employees' length of service, job category and grade.

A specified percentage of pay credit and interest credit is accumulated and contributed to the defined benefit plan for future pension payments.

Certain domestic and foreign subsidiaries also provide defined benefit plans.

The Company and certain domestic subsidiaries have a fund-type pension plan based on a pension agreement, and enter into an agreement with an insurance company for the payment of premiums and benefits and with a trust bank for the management of the fund.

The Company, certain domestic subsidiaries, the pension fund board and the pension investment fund are required by law to act giving the highest priority to benefits of plan participants and assume a responsibility of managing plan assets in accordance with prescribed policies.

<1> Reconciliations of defined benefit obligations and plan assets

The relationship between defined benefit obligations and plan assets and the net balance of liabilities and assets recognized in the consolidated statement of financial position is as follows:

Domestic plan

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Present value of defined benefit obligations	46,237	48,778	460,170
Fair value of plan assets	(48,238)	(50,664)	(477,962)
Subtotal	(2,000)	(1,885)	(17,783)
Present value of the unfunded defined benefit obligation	5,158	5,374	50,698
Net defined benefit liabilities	3,157	3,489	32,915
Balance in the consolidated statement of financial position			
Retirement benefit liabilities	5,237	5,484	51,736
Retirement benefit assets	(2,080)	(1,995)	(18,821)
Net balance	3,157	3,489	32,915

Overseas plan

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Present value of defined benefit obligations	25,152	25,089	236,689
Fair value of plan assets	(14,965)	(15,308)	(144,415)
Subtotal	10,187	9,781	92,274
Present value of the unfunded defined benefit obligation	2,187	2,340	22,075
Net defined benefit liabilities	12,375	12,121	114,349
Balance in the consolidated statement of financial position			
Retirement benefit liabilities	12,375	12,125	114,387
Retirement benefit assets	—	(4)	(38)
Net balance	12,375	12,121	114,349

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of Mach 31, 2018)
Retirement benefit liabilities	17,612	17,610	166,132
Retirement benefit assets	(2,080)	(1,999)	(18,858)
Net defined benefit liabilities recognized in the consolidated statement of financial position	15,532	15,610	147,264

Net defined benefit liabilities are presented as "Retirement benefit liabilities" in the consolidated statement of financial position. Net defined benefit assets are included in "Other non-current assets" in the consolidated statement of financial position.

<2> Reconciliations of the present value of defined benefit obligations

The movement of the present value of defined benefit obligations is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)	(Millions of yen)		(Thousands of U.S. dollars)
	Domestic plan			Overseas plan		
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Balance at the beginning of the year	49,924	51,395	484,858	29,109	27,340	257,925
Current service cost	2,423	2,490	23,491	438	524	4,943
Interest expense	309	388	3,660	613	602	5,679
Remeasurement	803	1,534	14,472	2,668	(1,315)	(12,406)
Actuarial gains or losses arising from changes in demographical assumptions	1,133	551	5,198	—	(10)	(94)
Actuarial gains or losses arising from changes in financial assumptions	(860)	736	6,943	2,608	(1,393)	(13,142)
Actuarial gains or losses arising from experience adjustments	530	246	2,321	60	88	830
Past service cost	—	1	9	—	11	104
Benefits paid	(2,065)	(1,545)	(14,575)	(799)	(1,398)	(13,189)
Foreign exchange differences	—	—	—	(2,304)	1,636	15,434
Business combination	—	3	28	—	—	—
Effect by transfer of plans	—	(49)	(462)	(2,417)	—	—
Other	—	(65)	(613)	31	29	274
Balance at the end of the year	51,395	54,153	510,877	27,340	27,429	258,764

The weighted-average durations of the defined benefit obligations for the year ended March 31, 2017 were 14.1 years for domestic and 17.5 years for overseas plans. For the year ended March 31, 2018, the durations were 14.6 years for domestic and 18.3 years for overseas plans.

<3> Reconciliations of the fair value of plan assets

The movement of the fair value of plan assets is as follows:

	Domestic plan (Millions of yen)		(Thousands of U.S. dollars)	Overseas plan (Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Balance at the beginning of the year	46,395	48,238	455,075	17,161	14,965	141,179
Interest income	304	387	3,651	362	330	3,113
Remeasurement	2,011	2,060	19,434	1,567	(74)	(698)
Return on plan assets excluding interest income	2,011	2,060	19,434	1,567	(74)	(698)
Employer contributions	1,042	1,263	11,915	412	437	4,123
Benefits paid	(1,519)	(1,318)	(12,434)	(764)	(1,296)	(12,226)
Foreign exchange differences	—	—	—	(1,473)	854	8,057
Effect by transfer of plans	—	—	—	(2,417)	—	—
Other	4	33	311	116	91	858
Balance at the end of the year	48,238	50,664	477,962	14,965	15,308	144,415

The Group expects to make a contribution of ¥1,930 million ($18,208 thousand) to the defined benefit plans during the year ending March 31, 2019.

The Company and certain domestic subsidiaries are planning to pay the necessary amount of contributions based on regulatory requirements if the amount of funds is less than the minimum amount of funds required at the time of fund calculation for each reporting period.

<4> Reconciliation of the effect of the asset ceiling

Not applicable.

<5> Reconciliations of reimbursement rights related to defined benefit plans

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Balance at the beginning of the year	1,783	1,786	16,849
Interest income	6	8	75
Remeasurement	8	6	57
Return on reimbursement rights excluding interest income	8	6	57
Employer contributions	94	82	774
Benefits paid	(81)	(38)	(358)
Foreign exchange differences	(25)	35	330
Balance at the end of the year	1,786	1,879	17,726

Reimbursement rights are insurance policies required for settlement of defined benefit obligations.

<6> The breakdown of fair value of plan assets

The breakdown of fair value of plan assets is as follows:

Domestic plan

FY2016 (As of March 31, 2017) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	640	640
Equity instruments	17,590	—	17,590
Domestic stocks	10,956	—	10,956
Foreign stocks	6,633	—	6,633
Debt instruments	10,709	—	10,709
Domestic bonds	8,543	—	8,543
Foreign bonds	2,166	—	2,166
Investments in life insurance company general accounts (Note 1)	—	9,011	9,011
Alternatives (Note 2)	—	10,286	10,286
Other	—	—	—
Total	28,300	19,937	48,238

(Note)
1) Investments in life insurance company general accounts are life insurers' products managed as one account together with individual insurance, corporate pension assets, etc. A fixed rate and return of capital are guaranteed and life insurers assume risks in managing such accounts.
2) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2017 (As of March 31, 2018) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	1,566	1,566
Equity instruments	17,104	—	17,104
Domestic stocks	9,956	—	9,956
Foreign stocks	7,148	—	7,148
Debt instruments	12,507	—	12,507
Domestic bonds	9,654	—	9,654
Foreign bonds	2,852	—	2,852
Investments in life insurance company general accounts (Note 1)	—	11,016	11,016
Alternatives (Note 2)	—	8,469	8,469
Other	—	—	—
Total	29,612	21,052	50,664

(Note)
1) Investments in life insurance company general accounts are life insurers' products managed as one account

together with individual insurance, corporate pension assets, etc. A fixed rate and return of capital are guaranteed and life insurers assume risks in managing such accounts.
2) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	14,774	14,774
Equity instruments	161,358	—	161,358
Domestic stocks	93,925	—	93,925
Foreign stocks	67,434	—	67,434
Debt instruments	117,991	—	117,991
Domestic bonds	91,075	—	91,075
Foreign bonds	26,906	—	26,906
Investments in life insurance company general accounts (Note 1)	—	103,925	103,925
Alternatives (Note 2)	—	79,896	79,896
Other	—	—	—
Total	279,358	198,604	477,962

Overseas plan

FY2016 (As of March 31, 2017) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	905	905
Equity instruments	4,265	—	4,265
Domestic stocks	—	—	—
Foreign stocks	4,265	—	4,265
Debt instruments	1,597	—	1,597
Domestic bonds	—	—	—
Foreign bonds	1,597	—	1,597
Insurance	—	3,494	3,494
Alternatives (Note)	—	4,224	4,224
Other	—	477	477
Total	5,863	9,102	14,965

(Note) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2017 (As of March 31, 2018) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	903	903
Equity instruments	4,119	—	4,119
Domestic stocks	—	—	—
Foreign stocks	4,119	—	4,119
Debt instruments	1,775	—	1,775
Domestic bonds	—	—	—
Foreign bonds	1,775	—	1,775
Insurance	—	3,417	3,417
Alternatives (Note)	—	4,628	4,628
Other	—	464	464
Total	5,894	9,413	15,308

(Note) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	8,519	8,519
Equity instruments	38,858	—	38,858
Domestic stocks	—	—	—
Foreign stocks	38,858	—	38,858
Debt instruments	16,745	—	16,745
Domestic bonds	—	—	—
Foreign bonds	16,745	—	16,745
Insurance	—	32,236	32,236
Alternatives (Note)	—	43,660	43,660
Other	—	4,377	4,377
Total	55,604	88,802	144,415

Plan assets are managed for the purpose of securing a total return required within acceptable risks for a long period of time in order to ensure future payments of pension benefits and lump-sum retirement payments.

Based on this purpose, the Company strives to maintain an appropriate asset mix, taking the expected rate of return and risks of investment assets into consideration.

<7> Assumptions used for actuarial valuation

The principal assumption used for the purpose of the actuarial valuation is as follows:

Domestic plan

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)
Weighted-average discount rate	0.2 to 0.9%	0.2 to 0.8%

Overseas plan

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)
Weighted-average discount rate	0.7 to 4.0%	0.8 to 4.0%

<8> Sensitivity analysis

If the discount rate used for actuarial valuation changes by 0.5%, the present value of defined benefit obligations would increase or decrease, as shown below. The sensitivity analysis below have been determined based on reasonably possible change of the assumption occurring at the end of the reporting period, while holding all other assumptions constant. In practice, the sensitivity analysis presented below may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Domestic plan

(Millions of yen) (Thousands of U.S. dollars)

If the discount rate:	The defined benefit obligation would:		
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
increases by 0.5%	decrease by 3,282	decrease by 3,580	decrease by 33,774
decreases by 0.5%	increase by 3,698	increase by 4,015	increase by 37,877

Overseas plan

(Millions of yen) (Thousands of U.S. dollars)

If the discount rate:	The defined benefit obligation would:		
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
increases by 0.5%	decrease of 2,240	decrease of 2,012	decrease of 18,981
decreases by 0.5%	Increase of 2,508	Increase of 2,062	increase of 19,453

(2) Defined contribution plans

The total expense recognized in profit or loss in relation to defined contribution plan were ¥10,037 million and ¥12,763 million ($120,406 thousand) for the years ended March 31, 2017 and 2018, respectively.

The amounts above included the expense recognized in profit or loss in relation to state pension plans.

(3) Employee benefit expenses

The amounts of employee benefit expenses included in "Cost of sales", "Selling, general and administrative expenses" and “Other expenses” in the consolidated statement of income were ¥147,733 million and ¥155,161 million ($1,463,783 thousand) for the years ended March 31, 2017 and 2018, respectively.

26. Provisions

The breakdown and movement in provisions are as follows:

(Millions of yen)

	Asset retirement obligations	Provision for product warranties	Other	Total
Balance as of April 1, 2016	1,523	5,828	2,389	9,741
Increase	163	4,362	1,812	6,337
Decrease (used)	(155)	(4,652)	(1,725)	(6,533)
Decrease (reversal)	—	(315)	(37)	(353)
Increase due to passage of time	12	—	—	12
Foreign exchange differences	(3)	(143)	10	(136)
Balance as of March 31, 2017	1,540	5,078	2,449	9,068
Increase due to business combination	37	—	—	37
Increase	179	2,377	1,394	3,952
Decrease (used)	(144)	(3,296)	(1,645)	(5,086)
Decrease (reversal)	—	(56)	(59)	(115)
Increase due to passage of time	15	—	—	15
Foreign exchange differences	3	119	(29)	93
Balance as of March 31, 2018	1,631	4,223	2,109	7,964

(Thousands of U.S. dollars)

Balance as of March 31, 2017	14,528	47,906	23,104	85,547
Increase due to business combination	349	—	—	349
Increase	1,689	22,425	13,151	37,283
Decrease (used)	(1,358)	(31,094)	(15,519)	(47,981)
Decrease (reversal)	—	(528)	(557)	(1,085)
Increase due to passage of time	142	—	—	142
Foreign exchange differences	28	1,123	(274)	877
Balance as of March 31, 2018	15,387	39,840	19,896	75,132

(Note)

1) Asset retirement obligations

If legal or contractual obligations are imposed in relation to the retirement of property, plant and equipment due to the acquisition, construction, development or normal operation of the property, plant and equipment, future expenses necessary for such retirement are recognized.

The outflow of economic benefits in the future is expected to occur after one year from the end of each reporting period, and it will be affected by future business plans.

2) Provision for product warranty

To provide for costs of after-sales services of products, estimated costs of after-sales services are recognized based on historical records.

The decrease (reversal) during the year is the reversal amount of the unused portion of the provision during the year as the estimate is less than the actual amount.

3) Other provisions

Other provisions include a provision for adjustment of returned unsold goods. The decrease (reversal) during the year is the reversal amount of the unused portion of the provision during the year as the estimate was less than the actual amount.

The breakdown of provisions in the consolidated statement of financial position is as follows:

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Current liabilities	5,691	4,823	45,500
Non-current liabilities	3,376	3,141	29,632
Total	9,068	7,964	75,132

27. Other Liabilities

The breakdown of other liabilities is as follows:

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Other current liabilities			
Accrued bonuses	12,376	13,289	125,368
Accrued unused paid absences	7,854	7,977	75,255
Accrued expenses	21,876	23,426	221,000
Other	8,243	7,982	75,302
Total	50,350	52,676	496,943
Other non-current liabilities			
Other long-term employee benefits	321	360	3,396
Deferred income	2,023	2,097	19,783
Long-term accrued expenses	780	650	6,132
Other	29	34	321
Total	3,154	3,143	29,651

28. Equity and Other Equity Items

(1) Capital stock and capital surplus

Under the Companies Act of Japan (the “Companies Act”), at least 50% of the proceeds of certain issues of common shares shall be credited to “Capital stock”. The remainder of the proceeds may be credited to “Capital surplus”. The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amounts from “Capital surplus” to “Capital stock”.

The number of authorized shares, the number of outstanding shares and the amount of capital stock, etc., are as follows:

	Number of authorized shares (Shares)	Number of outstanding shares (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)	Capital stock (Thousands of U.S. dollars)	Capital surplus (Thousands of U.S. dollars)
Balance as of April 1, 2016	600,000,000	277,535,866	19,209	17,321		
Increase	—	—	—	133		
Balance as of March 31, 2017	600,000,000	277,535,866	19,209	17,455	181,217	164,670
Increase	—	(15,315,336)	—	62	—	585
Balance as of March 31, 2018	600,000,000	262,220,530	19,209	17,517	181,217	165,255

(Note) The shares issued by the Company are common shares with no par value and no restriction on the content of rights. Outstanding shares are fully paid.

(2) Retained earnings

The Companies Act of Japan provides that a 10% dividend of retained earnings should be accumulated as “Capital surplus” or a legal reserve until the sum of “Capital surplus” or a legal reserve equal to 25% of “Capital stock”. Accumulated legal reserve can be applied to capital deficit and can be reversed upon resolution of the shareholders’ meeting.

Retained earnings include the transferred amount of the accumulated gains and losses recognized through other comprehensive income when selling financial assets measured at fair value through other comprehensive income.

(3) Treasury stock

The Companies Act allows Japanese companies to purchase and hold treasury stock. Japanese companies are allowed to decide the number, amount and other aspects of the treasury stock to be acquired, not exceeding the amount available for distribution, upon resolution at the shareholders' meeting. The Companies Act also allows Japanese companies to purchase treasury stock through market transactions or tender offers by resolution of the board of directors, as long as it is allowed under the articles of incorporation, subject to limitations imposed by the Companies Act.

The movement of the number and the amount of treasury stock is as follows:

	Number of shares (Shares)	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Balance as of April 1, 2016	17,901,425	(24,225)	
Increase	14,604	(26)	
Decrease	(26,234)	22	
Balance as of March 31, 2017	17,889,795	(24,230)	(228,585)
Increase	8,014	(15)	(142)
Decrease	(15,356,100)	21,445	202,311
Balance as of March 31, 2018	2,541,709	(2,800)	(26,415)

The increase in treasury stock by 14,604 shares for the year ended March 31, 2017 represents the Company’s purchase of odd lots of 11,788 shares and the portion of treasury stock acquired by associates of 2,816 shares. The decrease in treasury stock by 26,234 shares was due to the exercise of stock options of 20,800 shares, the portion of treasury stock sold by associates of 5,355 shares, and the transfer of odd lots in response to purchase requests of 79 shares.

The increase in treasury stock by 8,014 shares for the year ended March 31, 2018 represents the portion of treasury stock acquired by associates of 4,057 shares and the Company's purchase of odd lots of 3,957 shares. The decrease in treasury stock by 15,356,100 shares was due to the cancellation of treasury stock of 15,315,336 shares, the exercise of stock options of 34,300 shares, stock swap of 6,440 shares, and the transfer of odd lots in response to purchase requests of 24 shares.

(4) Other capital surplus

Stock acquisition rights

The Company adopts stock option plans and issues stock acquisition rights based on the Company Act. The contractual terms and the amounts, etc., are provided in Note 40 "Shared-Based Payments."

(5) Other components of equity

Cumulative translation differences for foreign operations

Cumulative translation differences for foreign operations are the foreign exchange differences which are recognized when consolidating the financial statements of foreign operations to the Group.

Effective portion of net changes in the fair value of cash flow hedges

This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges.

Gains/(Losses) on investments in equity instruments designated as FVTOCI

This is the valuation difference of Gains/(Losses) on investments in equity instruments designated as FVTOCI.

Remeasurements of the net defined benefit liabilities (assets)

Remeasurements of the net defined benefit liabilities (assets) comprise actuarial gains and losses on defined benefit obligations, the return on plan assets excluding the interest income and changes in the effect of the asset ceiling.

29. Dividends

The Company distributes dividends paid within the limit provided by the Companies Act. The dividend limit is calculated based on the amount of retained earnings in the Company's accounting books prepared in accordance with Japanese GAAP.

Dividends paid were as follows:

FY2016 (Year ended March 31, 2017)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
The Board of Directors Meeting held on May 16, 2016	4,679	18.00	March 31, 2016	June 3, 2016
The Board of Directors Meeting held on November 7, 2016	4,679	18.00	September 30, 2016	November 30, 2016

FY2017 (Year ended March 31, 2018)

Resolution	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
The Board of Directors Meeting held on May 19, 2017	6,239	58,858	24.00	0.23	March 31, 2017	June 2, 2017
The Board of Directors Meeting held on November 7, 2017	6,240	58,868	24.00	0.23	September 30, 2017	November 30, 2017

Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year are as follows:

FY2016 (Year ended March 31, 2017)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
The Board of Directors Meeting held on May19, 2017	6,239	24.00	March 31, 2017	June 2, 2017

FY2017 (Year ended March 31, 2018)

Resolution	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
The Board of Directors Meeting held on May 17, 2018	7,800	73,585	30.00	0.28	March 31, 2018	June 5, 2018

30. Revenue

The breakdown of revenue is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Sale of goods	590,661	660,214	6,228,434
Rendering of services	46,415	48,743	459,840
Royalty	1,850	1,714	16,170
Rental income	2,258	2,324	21,925
Total	641,185	712,997	6,726,387

31. Cost of Sales

The breakdown of cost of sales is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Raw materials costs	257,950	306,737	2,893,745
Employee benefit expenses	55,936	58,923	555,877
Depreciation and amortization	22,379	22,071	208,217
Other	31,750	24,478	230,925
Total	368,016	412,211	3,888,783

32. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Selling commissions	1,806	1,955	18,443
Employee benefit expenses	90,179	95,805	903,821
Depreciation and amortization	11,431	12,070	113,868
Freight expenses	12,745	14,689	138,575
Advertising expenses	16,555	16,618	156,774
Rental expenses	3,845	4,628	43,660
Traveling expenses	5,662	6,713	63,330
Other	70,182	71,076	670,528
Total	212,410	223,557	2,109,028

33. Other Income and Other Expenses

The breakdown of other income is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Gain on sales of fixed assets	126	170	1,604
Net gain in the fair value of financial instruments measured at FVTPL			
Derivatives	2,364	—	—
Other	—	546	5,151
Insurance revenue	58	234	2,208
Income from government grants	583	327	3,085
Other	515	553	5,217
Total	3,647	1,832	17,283

The breakdown of other expenses is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Loss on sales and disposal of fixed assets	888	784	7,396
Impairment losses	406	1,223	11,538
Net loss in the fair value of financial instruments measured at FVTPL			
Derivatives	—	5,665	53,443
Other	31	—	—
Foreign exchange losses	391	1,249	11,783
Credit losses	667	283	2,670
Structural reform expenses (Note)	1,749	517	4,877
Other	1,121	667	6,292
Total	5,253	10,390	98,019

(Note) Structural reform expenses for the year ended March 31, 2017 are mainly special retirement payments of certain consolidated subsidiaries in the Printing & Solution, Network & Contents and Domino businesses.
Structural reform expenses for the year ended March 31, 2018 are mainly special retirement payments of a certain consolidated subsidiary in the Personal & Home business.

34. Government Grants

The Company received government grants to acquire property, plant and equipment in association with the transfer of a factory in China. The government grants received, which are accounted for as deferred income and proportionally recognized as a reduction of cost of sales in profit or loss over the useful lives of the facilities subject to such grants in the consolidated statement of income, are ¥45 million for the year ended March 31, 2017 and ¥47 million ($443 thousand) for the year ended March 31, 2018. Otherwise, “Other income” includes the government grants of ¥583 million for the year ended March 31, 2017 and ¥327 million ($3,085 thousand) for the year ended March 31, 2018 as profit or loss.

There are no unsatisfied conditions and contingencies incidental to the government grants.

35. Finance Income and Finance Expenses

The breakdown of finance income is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Interest income			
Financial assets measured at amortized cost	917	961	9,066
Net gain in the fair value of financial instruments measured at FVTPL			
Derivatives (Note)	1,300	—	—
Dividend income	290	263	2,481
Foreign exchange gains (Note)	1,072	2,274	21,453
Other	19	22	208
Total	3,600	3,522	33,226

The breakdown of finance expenses is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Interest expense	1,325	1,161	10,953
Net interest expense on net defined benefit liability	249	263	2,481
Net loss in the fair value of financial instruments measured at FVTPL			
Derivatives (Note)	—	1,111	10,481
Other	74	61	575
Total	1,648	2,598	24,509

(Note) Foreign exchange gains or losses resulted primarily from corporate bonds and borrowings denominated in foreign currencies. The Company has entered into currency interest rate swap contracts to avoid the effect of fluctuations in the exchange rates of foreign currency-denominated borrowings on profit or loss, and the differences in valuation are recognized as finance income or expenses.

36. Earnings per Share

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)
Profit attributable to ordinary shareholders of the parent company (Millions of yen)	47,242	50,020
Profit attributable to ordinary shareholders of the parent company (Thousands of U.S. dollars)		471,887
Net income used in the calculation of diluted earnings per share (Millions of yen)	47,242	50,020
Net income used in the calculation of diluted earnings per share (Thousands of U.S. dollars)		471,887
Average number of shares – basic	259,635,550	259,674,870
Increase of shares – basic		
Stock acquisition rights (shares)	709,188	739,311
Average number of shares – diluted	260,344,738	260,414,181
Basic earnings per share (Yen)	181.96	192.63
Basic earnings per share (U.S. dollar)		1.82
Diluted earnings per share (Yen)	181.46	192.08
Diluted earnings per share (U.S. dollar)		1.81

37. Other Comprehensive Income

The amount arising during the year, reclassification adjustments to profit or loss and the income tax effect for each item in other comprehensive income, including non-controlling interests, are as follows:

FY2016 (Year ended March 31, 2017)

(Millions of yen)

	The amount arising during the year	Reclassification adjustments	Before income tax effect	Income tax effect	After income tax effect
Items that will not be reclassified to profit or loss					
Gains/(Losses) on investments in equity instruments designated as FVTOCI	3,561	—	3,561	(872)	2,689
Remeasurements of the net defined benefit liability (asset)	114	—	114	(51)	63
Share of other comprehensive income of investments accounted for using the equity method	(21)	—	(21)	—	(21)
Subtotal	3,654	—	3,654	(923)	2,730
Items that may be reclassified to profit or loss					
Cash flow hedges	221	(173)	47	(9)	38
Exchange differences on translating foreign operations	(29,185)	4	(29,181)	232	(28,948)
Subtotal	(28,963)	(169)	(29,133)	223	(28,909)
Total	(25,309)	(169)	(25,479)	(700)	(26,179)

FY2017 (Year ended March 31, 2018)

(Millions of yen)

	The amount arising during the year	Reclassification adjustments	Before income tax effect	Income tax effect	After income tax effect
Items that will not be reclassified to profit or loss					
Gains/(Losses) on investments in equity instruments designated as FVTOCI	3,583	—	3,583	(991)	2,591
Remeasurements of the net defined benefit liability (asset)	1,772	—	1,772	(394)	1,377
Share of other comprehensive income of investments accounted for using the equity method	(2)	—	(2)	—	(2)
Subtotal	5,353	—	5,353	(1,386)	3,966
Items that may be reclassified to profit or loss					
Cash flow hedges	27	163	190	(29)	161
Exchange differences on translating foreign operations	8,808	—	8,808	—	8,808
Subtotal	8,835	163	8,998	(29)	8,969
Total	14,188	163	14,352	(1,415)	12,936

(Thousands of U.S. dollars)

	The amount arising during the year	Reclassification adjustments	Before income tax effect	Income tax effect	After income tax effect
Items that will not be reclassified to profit or loss					
Gains/(Losses) on investments in equity instruments designated as FVTOCI	33,802	—	33,802	(9,349)	24,443
Remeasurements of the net defined benefit liability (asset)	16,717	—	16,717	(3,717)	12,991
Share of other comprehensive income of investments accounted for using the equity method	(19)	—	(19)	—	(19)
Subtotal	50,500	—	50,500	(13,075)	37,415
Items that may be reclassified to profit or loss					
Cash flow hedges	255	1,538	1,792	(274)	1,519
Exchange differences on translating foreign operations	83,094	—	83,094	—	83,094
Subtotal	83,349	1,538	84,887	(274)	84,613
Total	133,849	1,538	135,396	(13,349)	122,038

Of the above items, the amounts attributable to non-controlling interests (after income tax effect) are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Gains on investments in equity instruments designated as FVTOCI	45	128	1,208
Remeasurements of the net defined benefit liability (asset)	11	(3)	(28)
Exchange differences on translating foreign operations	22	8	75
Total	79	134	1,264

38. Liabilities Arising from Financing Activities

The changes in liabilities arising from financing activities are as follows:

(Millions of yen)

	FY2016 (As of March 31, 2017)	Cash flow	Non-cash changes					FY2017 (As of March 31, 2018)
			Foreign exchange differences	Fair value	New leases	Amortized cost	Business combination	
Short-term borrowings	402	671	2	—	—	—	100	1,176
Long-term borrowings (Note 1)								
Long-term borrowings	96,535	(19,479)	(2,304)	—	—	(47)	98	74,801
Derivatives	5,246	(819)	—	1,813	—	—	—	6,240
Subtotal	101,782	(20,299)	(2,304)	1,813	—	(47)	98	81,042
Bonds (Note 2)	40,654	(422)	52	—	—	43	140	40,468
Lease obligations	4,273	(1,760)	(0)	—	1,892	—	174	4,579
Total	147,113	(21,811)	(2,249)	1,813	1,892	(4)	513	127,266

(Note)
1) "Repayment of long-term borrowings" in the consolidated statement of cash flows includes derivatives paid or received.
2) Changes from cash flows associated with bonds for the year ended March 31, 2018 are included in "Other" in "Cash flows from financing activities" in the consolidated statement of cash flows.

(Thousands of U.S. dollars)

	FY2016 (As of March 31, 2017)	Cash flow	Non-cash changes					FY2017 (As of March 31, 2018)
			Foreign exchange differences	Fair value	New leases	Amortized cost	Business combination	
Short-term borrowings	3,792	6,330	19	—	—	—	943	11,094
Long-term borrowings (Note 1)								
Long-term borrowings	910,708	(183,764)	(21,736)	—	—	(443)	925	705,670
Derivatives	49,491	(7,726)	—	17,104	—	—	—	58,868
Subtotal	960,208	(191,500)	(21,736)	17,104	—	(443)	925	764,547
Bonds (Note 2)	383,528	(3,981)	491	—	—	406	1,321	381,774
Lease obligations	40,311	(16,604)	(0)	—	17,849	—	1,642	43,198
Total	1,387,858	(205,764)	(21,217)	17,104	17,849	(38)	4,840	1,200,623

39. Non-Financial Transactions

The purchases of property, plant and equipment related to finance leases are as follows:

(Millions of yen) (Thousands of U.S. dollars)

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Property, plant and equipment related to finance leases	311	1,062	10,019

40. Shared-Based Payments

(1) Description of the share-based payment system

The Company has adopted a stock option scheme for directors (excluding external directors) and executive officers (excluding executive officers concurrently working as director) with an aim to increase incentives for the improvement of long-term performance.

Stock options of the Company are all equity-settled, share-based payment and granted on the basis of matters approved at the board of directors' meeting. The exercise period is prescribed in the allocation agreement, and stock options not exercised during such period expire. No vesting conditions are set in the scheme, and stock options are vested on the grant date.

Stock acquisition rights holders may, during the exercise period, exercise their stock acquisition rights within five years from the day immediately following one year after the date on which they resign as director or executive officer of the Company. However, in cases in which the first day of the exercise period does not arrive by 30 years after the following day of the allocation date of stock acquisition rights, on which the subscription requirements for stock acquisition rights are determined, the holders may exercise such rights within one year from the following day.

Details of the Company's stock options are as follows:

Date of grant	Number of options granted	Exercise period	Exercise price	Fair value price at grant date
	Shares		Yen (U.S. dollar)	Yen (U.S. dollar)
March 19, 2007	The Company directors 46,000	30 years starting on the day following the stock option grant date	¥1 ($0.01)	The Company directors ¥1,350 ($12.74)
March 24, 2008	The Company directors 65,100	Same as above	¥1 ($0.01)	The Company directors ¥915 ($8.63)
March 23, 2009	The Company directors 114,500	Same as above	¥1 ($0.01)	The Company directors ¥642 ($6.06)
March 23, 2010	The Company directors 51,900 The Company executive officers 49,600	Same as above	¥1 ($0.01)	The Company directors ¥899 ($8.48) The Company executive officers ¥912 ($8.60)
March 23, 2011	The Company directors 43,200 The Company executive officers 40,300	Same as above	¥1 ($0.01)	The Company directors ¥1,018 ($9.60) The Company executive officers ¥1,034 ($9.75)
March 23, 2012	The Company directors 44,600 The Company Executive Officers 61,800	Same as above	¥1 ($0.01)	The Company directors ¥929 ($8.76) The Company executive officers ¥957 ($9.03)
March 21, 2013	The Company directors 36,600 The Company executive officers 69,500	Same as above	¥1 ($0.01)	The Company directors ¥850 ($8.02) The Company executive officers ¥880 ($8.30)
March 27, 2014	The Company directors 30,800 The Company executive officers 49,600	Same as above	¥1 ($0.01)	The Company directors ¥1,169 ($11.03) The Company executive officers ¥1,157 ($10.92)
March 18, 2015	The Company directors 37,300 The Company executive officers 28,800	Same as above	¥1 ($0.01)	The Company directors ¥1,615 ($15.24) The Company executive officers ¥1,655 ($15.61)
March 24, 2016	The Company directors 52,200 The Company executive officers 66,000	Same as above	¥1 ($0.01)	The Company directors ¥1,089 ($10.27) The Company executive officers ¥1,089 ($10.27)
March 24, 2017	The Company directors 29,700 The Company executive officers 43,500	Same as above	¥1 ($0.01)	The Company directors ¥1,981 ($18.69) The Company executive officers ¥1,944 ($18.34)
March 26, 2018	The Company directors 28,300 The Company executive officers 33,200	Same as above	¥1 ($0.01)	The Company directors ¥2,014 ($19.00) The Company executive officers ¥1,967 ($18.56)

(2) Number of stock options and weighted-average exercise price

	FY2016 (Year ended March 31, 2017)		FY2017 (Year ended March 31, 2018)		
	Number of shares (Share)	Weighted-average exercise price (Yen)	Number of shares (Share)	Weighted-average exercise price (Yen)	Weighted-average exercise price (U.S. dollars)
Unexercised balance at beginning of year	713,500	1	765,900	1	0.01
Granted	73,200	1	61,500	1	0.01
Forfeited	—	—	—	—	—
Exercised	20,800	1	34,300	1	0.01
Matured	—	—	—	—	—
Unexercised balance at end of year	765,900	1	793,100	1	0.01
Exercised balance at end of year	—	—	9,600	1	0.01

The weighted-average stock price on the exercise date is ¥2,108 for the stock options exercised during the year ended March 31, 2017 and ¥2,554 ($24.09) for those exercised during the year ended March 31, 2018.

The exercise price of unexercised stock options is ¥1 as of March 31, 2017, and ¥1($0.01) as of March 31, 2018. The weighted-average remaining contractual term was 22 years for the year ended March 31, 2017 and 23 years for the year ended March 31, 2018.

(3) Fair value of stock options granted during the period and valuation method used

The weighted-average fair value of the stock options granted is ¥1,959 for the year ended March 31, 2017 and ¥1,989 ($18.76) for the year ended March 31, 2018.

The fair value of the stock options granted during the period is assessed using the Black-Scholes Model based on the following:

	FY 2016 (Year ended March 31, 2017)		FY 2017 (Year ended March 31, 2018)	
	The Company directors	The Company executive officers	The Company directors	The Company executive officers
Stock price at the date of grant (Yen)	2,358	2,358	2,389	2,389
Stock price at the date of grant (U.S. dollar)			22.54	22.54
Exercise price (Yen)	1	1	1	1
Exercise price (U.S. dollar)			0.01	0.01
Expected volatility	35.69%	41.38%	34.34%	34.82%
Expected life	8 years	9 years	8 years	9 years
Expected dividend	2.17%	2.13%	2.12%	2.15%
Risk-free interest rate	(0.03)%	0.01%	(0.06)%	(0.01)%

(Note) Expected volatility is calculated based on daily stock prices during the period corresponding to the expected life. The expected life is estimated based on the average length of tenure of the Company's directors and executive officers and the exercise conditions. Expected dividends are computed on the basis of actual dividends paid during the period corresponding to the expected life. The risk-free rate is based on the yield of government bonds during the period corresponding to the expected life.

(4) Share-based compensation expenses

The amount of share-based compensation expenses included in “Selling, general and administrative expenses” in the consolidated statement of income is ¥143 million for the year ended March 31, 2017 and ¥122 million ($1,151 thousand) for the year ended March 31, 2018.

41. Financial Instruments

(1) Capital management

The Group manages capital for the purpose of maximizing corporate value through sustainable growth.

The comparison between net interest-bearing debt (interest-bearing debt less cash and cash equivalents) and capital (equity attributable to owners of the parent company) is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Interest-bearing debt	137,592	116,446	1,098,547
Cash and cash equivalents	(112,032)	(121,384)	(1,145,132)
Net interest-bearing debt	25,560	(4,937)	(46,575)
Capital (equity attributable to owners of the parent company)	345,061	395,514	3,731,264

(Note)

1) The Group is not subject to any externally imposed capital requirements.

2) Interest-bearing debt is calculated as the sum of “Bonds and borrowings” in the consolidated statement of financial position.

(2) Financial risk management

The Group is exposed to a variety of financial risks such as market risk (including currency exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk in the course of its business activities and conducts risk management to mitigate such financial risks.

The Group enters into derivative financial instruments in order to reduce foreign currency exchange rate risk and interest rate risk and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

<1> Credit risk management

a. Risk management activities

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group manages such risk by setting credit limits for counterparties based on its credit management policy.

Trade receivables are due from a large number of customers, spread across diverse industries and geographical areas. The Group does not have significant credit risk exposure or concentration of credit risk to any single counterparty or groups of counterparties.

The Group's maximum exposure to credit risk before considering the estimated value of the collateral obtained is the carrying amount of financial assets after deducting impairment losses, which is reported in the consolidated financial statements.

The Company enters into derivative financial instruments only with creditworthy financial institutions to reduce counterparty risk.

b. Credit risk management practice

The assessment of whether there has been a significant increase in credit risk is based on internal and external credit ratings and other information. If a contractual payment is more than 30 days past due, it is generally deemed that there has been a significant increase in credit risk.

The Group determines that a debtor is in default if its credit has been impaired, which is judged based on any events occurring that may have an adverse impact on expected future cash flows of financial assets.

Expected credit losses are assessed individually or by group, in which case debtors are categorized into groups based on common risk characteristics indicating their capabilities. In assessing 12-month and lifetime expected credit losses, the current situation and projection for future losses are considered on the basis of credit impairment history.

c. Changes in allowance for doubtful accounts and subject financial assets

The Group provides an allowance for doubtful accounts taking into consideration the recoverability of operating receivables, etc., according to the credit status of counterparties.

Changes in the allowance for doubtful accounts in relation to trade receivables and other assets are as described below. Assets whose recoverability is likely to be low are classified into credit-impaired financial assets (e.g., when only partial payment is made and interest has occurred or payment for assets 30 days past due is made irregularly).

Changes in allowance for doubtful accounts are as follows:

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of April 1, 2016	318	1,870	2,189
Reclassification to credit-impaired financial assets	(20)	20	—
Increase resulting from new financial assets and derecognized financial assets	231	959	1,191
Write-offs	(72)	(452)	(524)
Foreign exchange differences	(20)	(59)	(79)
Other	1	(1)	0
Balance as of March 31, 2017	438	2,337	2,776
Reclassification to non-credit-impaired financial assets	55	(55)	—
Reclassification to credit-impaired financial assets	(4)	4	—
Increase(decrease) resulting from new financial assets and derecognized financial assets	(49)	16	(32)
Write-offs	(2)	(225)	(227)
Changes due to terms	(14)	—	(14)
Foreign exchange differences	22	(13)	8
Other	—	1	1
Balance as of March 31, 2018	445	2,066	2,512

(Thousands of U.S. dollars)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of March 31, 2017	4,132	22,047	26,189
Reclassification to non-credit-impaired financial assets	519	(519)	—
Reclassification to credit-impaired financial assets	(38)	38	—
Increase(decrease) resulting from new financial assets and derecognized financial assets	(462)	151	(302)
Write-offs	(19)	(2,123)	(2,142)
Changes due to terms	(132)	—	(132)
Foreign exchange differences	208	(123)	75
Other	—	9	9
Balance as of March 31, 2018	4,198	19,491	23,698

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses Credit-impaired financial assets	Total
Balance as of April 1, 2016	229	344	573
Increase (decrease) resulting from new financial assets and derecognized financial assets	(211)	30	(181)
Write-offs	(0)	—	(0)
Foreign exchange differences	(14)	0	(14)
Balance as of March 31, 2017	3	374	377
Increase (decrease) resulting from new financial assets and derecognized financial assets	(0)	0	0
Write-offs	(0)	—	(0)
Foreign exchange differences	0	(17)	(17)
Balance as of March 31, 2018	3	357	360

(Thousands of U.S. dollars)

	12-month expected credit losses	Lifetime expected credit losses Credit-impaired financial assets	Total
Balance as of March 31, 2017	28	3,528	3,557
Increase (decrease) resulting from new financial assets and derecognized financial assets	(0)	0	0
Write-offs	(0)	—	(0)
Foreign exchange differences	0	(160)	(160)
Balance as of March 31, 2018	28	3,368	3,396

Changes in receivables for which an allowance for doubtful accounts is provided are as follows:

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of April 1, 2016	94,871	2,535	97,406
Reclassification to credit-impaired financial assets	(252)	252	—
New financial assets and derecognized financial assets	5,041	(309)	4,732
Write-offs	(104)	(481)	(586)
Foreign exchange differences	(2,554)	(102)	(2,656)
Other	(847)	847	(0)
Balance as of March 31, 2017	96,153	2,742	98,895
Reclassification to non-credit-impaired financial assets	756	(756)	—
Reclassification to credit-impaired financial assets	(466)	466	—
New financial assets and derecognized financial assets	9,725	(489)	9,236
Write-offs	(36)	(154)	(191)
Foreign exchange differences	(835)	5	(829)
Other	(835)	869	33
Balance as of March 31, 2018	104,461	2,683	107,144

(Thousands of U.S. dollars)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of March 31, 2017	907,104	25,868	932,972
Reclassification to non-credit-impaired financial assets	7,132	(7,132)	—
Reclassification to credit-impaired financial assets	(4,396)	4,396	—
New financial assets and derecognized financial assets	91,745	(4,613)	87,132
Write-offs	(340)	(1,453)	(1,802)
Foreign exchange differences	(7,877)	47	(7,821)
Other	(7,877)	8,198	311
Balance as of March 31, 2018	985,481	25,311	1,010,792

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of April 1, 2016	5,056	1	370	5,428
Reclassification to credit-impaired financial assets	(30)	—	30	—
New financial assets and derecognized financial assets	(40)	(0)	—	(41)
Write-offs	(2)	—	—	(2)
Foreign exchange differences	(24)	(0)	(0)	(25)
Other	6	—	—	6
Balance as of March 31, 2017	4,964	0	400	5,366
New financial assets and derecognized financial assets	125	—	5	131
Write-offs	(4)	—	—	(4)
Foreign exchange differences	83	0	(17)	66
Other	94	—	9	103
Balance as of March 31, 2018	5,263	0	397	5,662

(Thousands of U.S. dollars)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of March 31, 2017	46,830	0	3,774	50,623
New financial assets and derecognized financial assets	1,179	—	47	1,236
Write-offs	(38)	—	—	(38)
Foreign exchange differences	783	0	(160)	623
Other	887	—	85	972
Balance as of March 31, 2018	49,651	0	3,745	53,415

Of financial assets that are written off, there are no financial assets for which collecting activities continue in the year ended March 31, 2018.

d. Risk profile

The description of credit risk profiles by external credit ratings, etc., is as follows:

FY2016 (As of March 31, 2017)

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	87,219	157	87,377
Within 30 days past due	5,629	70	5,700
31 to 60 days past due	1,689	23	1,712
61 to 90 days past due	697	78	776
Over 90 days past due	916	2,412	3,329
Total	96,153	2,742	98,895

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	4,964	0	47	5,011
Over 90 days past due	0	0	353	354
Total	4,964	0	400	5,366

Bonds

(Millions of yen)

	12-month expected credit losses
Rating AAA-AA	2,206
Rating A	6,753
Total	8,959

FY2017 (As of March 31, 2018)

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	94,593	90	94,684
Within 30 days past due	7,099	14	7,113
31 to 60 days past due	1,278	5	1,284
61 to 90 days past due	763	5	768
Over 90 days past due	725	2,567	3,293
Total	104,461	2,683	107,144

(Thousands of U.S. dollars)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	892,387	849	893,245
Within 30 days past due	66,972	132	67,104
31 to 60 days past due	12,057	47	12,113
61 to 90 days past due	7,198	47	7,245
Over 90 days past due	6,840	24,217	31,066
Total	985,481	25,311	1,010,792

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	5,263	0	43	5,307
Over 90 days past due	—	0	354	355
Total	5,263	0	397	5,662

(Thousands of U.S. dollars)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	49,651	0	406	50,066
Over 90 days past due	—	0	3,340	3,349
Total	49,651	0	3,745	53,415

Bonds

(Millions of yen)

	12-month expected credit losses
Rating AAA-AA	5,531
Rating A	6,972
Total	12,504

(Thousands of U.S. dollars)

	12-month expected credit losses
Rating AAA-AA	52,179
Rating A	65,774
Total	117,962

e. Credit risk exposure

The maximum exposure to credit risk as of March 31, 2018 is the carrying amount of financial assets. No credit enhancement is provided by taking collateral, etc., as a guarantee.

<2> Liquidity risk management

a. Risk management activities

Liquidity risk is the risk that the Group may be unable to meet its repayment obligations on financial liabilities which are due for settlement.

The Group’s policy in financial activities is to keep liquidity at an appropriate level for present and future business activities and to ensure flexible and efficient funding. In accordance with this policy, the Group, mainly its financial subsidiaries, establishes and manages a cash management system to efficiently utilize the Group's funding. The Group also manages liquidity risk by regularly preparing and updating funding plans and entering into commitment line agreements with several financial institutions to ensure various means of funding.

b. Maturity analysis

The following table details the Group's expected maturity for its financial liabilities:

FY2016 (As of March 31, 2017)

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	66,268	66,268	66,268	—	—	—	—	—
Borrowings	96,938	97,182	19,776	250	19,339	200	19,339	38,278
Bonds	40,654	40,733	733	20,000	—	20,000	—	—
Lease obligations	4,273	4,290	1,500	1,233	924	385	245	—
Other	2,496	2,496	781	430	185	120	23	954
Derivative financial liabilities								
Foreign exchange forward contracts/Currency option contracts	1,322	1,322	1,322	—	—	—	—	—
Interest-rate and currency swaps/Interest rate swaps/Currency swaps	5,930	5,930	118	—	1,889	—	1,168	2,754
Total	217,885	218,226	90,502	21,913	22,339	20,706	20,777	41,987

FY2017 (As of March 31, 2018)

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	68,189	68,189	68,189	—	—	—	—	—
Borrowings	75,978	76,026	1,448	18,702	210	18,688	18,488	18,488
Bonds	40,468	40,496	20,446	20	20,020	10	—	—
Lease obligations	4,579	4,743	1,542	1,299	651	496	754	—
Other	2,530	2,530	682	205	63	13	15	1,550
Derivative financial liabilities								
Foreign exchange forward contracts/Currency option contracts	1,543	1,543	1,543	—	—	—	—	—
Interest-rate and currency swaps/Interest rate swaps/Currency swaps	6,715	6,715	—	1,514	—	1,620	1,725	1,854
Total	200,004	200,080	93,785	21,643	20,945	20,828	20,984	21,893

FY2017 (As of March 31, 2018)

(Thousands of U.S. dollars)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	643,292	643,292	643,292	—	—	—	—	—
Borrowings	716,774	717,226	13,660	176,434	1,981	176,302	174,415	174,415
Bonds	381,774	382,038	192,887	189	188,868	94	—	—
Lease obligations	43,198	44,745	14,547	12,255	6,142	4,679	7,113	—
Other	23,868	23,868	6,434	1,934	594	123	142	14,623
Derivative financial liabilities								
Foreign exchange forward contracts/Currency option contracts	14,557	14,557	14,557	—	—	—	—	—
Interest-rate and currency swaps/Interest rate swaps /Currency swaps	63,349	63,349	—	14,283	—	15,283	16,274	17,491
Total	1,886,830	1,887,547	884,764	204,179	197,594	196,491	197,962	206,538

c. Commitment lines

Total amounts of commitment lines and their usage are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Total commitment lines	10,000	10,000	94,340
Drawn	—	—	—
Undrawn	10,000	10,000	94,340

<3> Foreign currency exchange rate risk management

a. Risk management activities

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed utilizing derivative financial instruments such as foreign exchange forward contracts and currency options.

b. Exchange sensitivity analysis

The following table details the Group's sensitivity of profit before income taxes in the consolidated statement of income and comprehensive income for the year in the consolidated statement of comprehensive income from financial assets and financial liabilities to a 1% increase in the Japanese yen against the relevant foreign currencies (i.e., the US dollar, Euro, British pound and Chinese yuan for each reporting period). Note that this analysis holds all other variables such as balance and interest rate constant.

	(Millions of yen)				(Thousands of U.S. dollars)	
	FY2016 (Year ended March 31, 2017)		FY2017 (Year ended March 31, 2018)		FY2017 (Year ended March 31, 2018)	
	Profit before income taxes	Comprehensive income for the year (before tax effects)	Profit before income taxes	Comprehensive income for the year (before tax effects)	Profit before income taxes	Comprehensive income for the year (before tax effects)
USD	(107)	(86)	177	174	1,670	1,642
EUR	876	888	681	681	6,425	6,425
GBP	(54)	(84)	(34)	(34)	(321)	(321)
CNY	2	18	55	55	519	519

<4> Interest risk management

a. Risk management activities

The Group is exposed to interest rate risk, which influences borrowing costs and the fair value of bonds. This risk is managed by the use of derivative financial instruments such as interest rate swaps in accordance with predetermined policies to minimize the risk.

b. Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of each reporting period. If interest rates had been 1% higher and all other variables such as balance and exchange rate were held constant, the Group's profit before income taxes in the consolidated statement of income and comprehensive income for the year in the consolidated statement of comprehensive income would be as follows.

Note that this analysis holds all other variables such as balance and interest rate constant.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Profit before income taxes	1,033	1,196	11,283
Comprehensive income for the year (before tax effects)	1,033	1,196	11,283

<5> Market risk management

a. Risk management activities

The Group is exposed to equity price risks arising from equity instruments. The Group holds the equity instruments for strategic rather than trading purposes and regularly checks the market value of the equity instruments and financial situation of issuers.

b. Price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of each reporting period. If equity prices had been 1% higher and all other variables were held constant, comprehensive income for the year before tax effect accounting would be as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Comprehensive income for the year (before tax effects)	171	204	1,925

(3) Hedge accounting

Exchange rate risk with receivables and payables denominated in foreign currencies

a. Hedge management strategy

The Group holds assets and liabilities that are exposed to the risk of movements in foreign exchange rates and enters into foreign exchange forward contracts to hedge the risk. Some subsidiaries are also exposed to the risk of movements in foreign exchange differences due to sales and purchases denominated in currencies other than the functional currencies.

The maximum exposure to the risk of movements in foreign exchange differences as of March 31, 2018 is the carrying amount of receivables and payables denominated in foreign currencies. The net amount is the negative amount of ¥59,715 million ($563,349 thousand).

At the inception of a hedge, the Group formally designates and documents hedging relationships to which hedge accounting is applied as well as hedging risk management purposes and strategies. The Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

The Group has established an appropriate hedge ratio based on the quantity of hedged items and hedging instruments at the beginning of the hedging relationship, which in principle is set to be one to one.

b. Amount, timing and uncertainty of future cash flows

The Group uses foreign exchange forward contracts as hedging instruments. The amounts for each settlement timing are as follows:

FY2016 (As of March 31, 2017)

(Millions of yen)

	Contractual amount	Average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Foreign exchange forward contracts								
Selling								
USD/GBP	2,330	1.32	2,330	—	—	—	—	—
EUR/GBP	1,166	1.19	1,166	—	—	—	—	—
CAD/GBP	679	1.73	679	—	—	—	—	—
CNY/GBP	1,514	9.16	1,514	—	—	—	—	—
Buying								
CHF/GBP	2,174	0.78	2,174	—	—	—	—	—
SEK/GBP	505	0.09	505	—	—	—	—	—
Total	8,370	—	8,370	—	—	—	—	—

There are no forecasted transactions to which hedge accounting was applied in the year ended March 31, 2016, but has discontinued in the year ended March 31, 2017, as they are no longer expected to occur.

FY2017 (As of March 31, 2018)

Not applicable.

c. Impact of hedge accounting on consolidated financial statements

The following tables detail the forward foreign currency contracts outstanding at the end of each reporting period, as well as information regarding their related hedged items:

Hedging instruments designated as cash flow hedges are as follows:

FY2016 (As of March 31, 2017)

(Millions of yen)

	Contractual amount	Over 1 year	Carrying amount		Accounts in consolidated statement of financial position	Changes in fair value used for calculating the ineffective portion of hedges
			Assets	Liabilities		
Foreign exchange forward contracts	8,370	—	132	285	Other financial assets Other financial liabilities	221

FY2017 (As of March 31, 2018)

Not applicable.

Hedged items designated as cash flow hedges are as follows:

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
		(Millions of yen)	(Thousands of U.S. dollars)
Changes in fair value used for calculating the ineffective portion of hedges	(221)	—	—
Cash flow hedge reserve with continuing hedges	(161)	—	—

The impact of hedge accounting on the consolidated statement of income is as follows:

FY2016 (Year ended March 31, 2017)

(Millions of yen)

	Changes in value of hedging instruments recognized in other comprehensive income	Amount reclassified from cash flow hedge reserve to profit or loss	Accounts that reclassification had an impact on
Foreign exchange forward contracts	221	173	Other income

FY2017 (Year ended March 31, 2018)

(Millions of yen)

	Changes in value of hedging instruments recognized in other comprehensive income	Amount reclassified from cash flow hedge reserve to profit or loss	Accounts that reclassification had an impact on
Foreign exchange forward contracts	27	(163)	Other expenses

(Thousands of U. S. dollars)

	Changes in value of hedging instruments recognized in other comprehensive income	Amount reclassified from cash flow hedge reserve to profit or loss	Accounts that reclassification had an impact on
Foreign exchange forward contracts	255	(1,538)	Other expenses

(4) Classification of financial assets and financial liabilities

The classification of financial assets and liabilities is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Assets:			
Financial assets measured at amortized cost			
Cash and cash equivalents	112,032	121,384	1,145,132
Trade and other receivables	96,112	104,624	987,019
Other financial assets	17,962	22,935	216,368
Financial assets measured at FVTPL			
Other financial assets	4,202	4,611	43,500
Equity instruments measured at FVTOCI			
Other financial assets	17,178	20,406	192,509
Total	247,487	273,962	2,584,547
Liabilities:			
Lease obligations			
Other financial liabilities	4,273	4,579	43,198
Financial liabilities measured at amortized cost			
Trade and other payables	66,268	68,189	643,292
Bonds and borrowings	137,592	116,446	1,098,547
Other financial liabilities	2,496	2,530	23,868
Financial liabilities measured at FVTPL			
Other financial liabilities	7,253	8,258	77,906
Total	217,885	200,004	1,886,830

(5) Fair value of financial instruments

<1> Fair value at the end of the period

a. Fair values and carrying amounts by class at the end of the period

The carrying amounts and fair values of financial instruments are as shown below.

Financial instruments measured at fair value and financial instruments of which the carrying amount approximates the fair value are not included.

	(Millions of yen)				(Thousands of U.S. dollars)	
	FY2016 (As of March 31, 2017)		FY2017 (As of March 31, 2018)		FY2017 (As of March 31, 2018)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets:						
Other financial assets	17,962	17,953	22,935	22,924	216,368	216,264
Liabilities:						
Bonds and borrowings	137,592	136,580	116,446	115,983	1,098,547	1,094,179
Other financial liabilities	6,769	6,769	7,109	7,109	67,066	67,066

b. Fair value measurement method

The method of measuring the fair value of a financial instrument is as follows.

(Cash and cash equivalents, trade and other receivables, other financial assets, trade and other payables, and other financial liabilities)

For the items that are settled in a short period of time, the carrying amounts are deemed to be the fair value because the fair values approximate the carrying amounts. The other items are measured at the present value of the future cash flow that is discounted by using a rate reflecting the period up to the due date and credit risk. They are classified in Level 2 of the fair value hierarchy.

(Other financial assets and other financial liabilities)

The fair value of listed shares and corporate bonds is the market price at the end of the period and is categorized as Level 1 or Level 2 of the fair value hierarchy depending on whether or not an active market is available. The fair value of non-listed shares, etc., is measured mainly by the multiple method or the net asset value method using unobservable inputs such as valuation multiples and is classified in Level 3 of the fair value hierarchy. The fair value of financial instruments categorized as Level 3 is measured in accordance with related internal regulations by using valuation techniques and inputs that can reflect the nature, characteristics and risks of the relevant financial instruments in the most appropriate manner. The results of fair value measurement are reviewed by senior managers. The EBIT multiple and the net asset multiple are the major unobservable inputs that are used to measure the fair value of financial instruments in Level 3. The EBIT multiple and the net asset multiple used for fair value measurement in the current fiscal year are between 5.6x and 21.1x and between 0.8x and 4.5x, respectively. The fair value increases (decreases) by an increase (decrease) in the EBIT multiple or the net asset multiple.

With respect to financial instruments categorized in Level 3, there are no significant changes in the fair value when changing unobservable inputs to reasonably possible alternative assumptions.

The fair value of derivatives, etc., is measured based on observable market data such as interest rates and exchange rates offered by counterparty financial institutions, etc. and is classified in Level 2 of the fair value hierarchy.

(Bonds and borrowings)

The fair value of bonds and borrowings is the present value calculated by discounting future cash flows at a rate assumed when executing a new similar contract. This is classified in Level 2 as observable market data is used.

<2> Financial instruments measured at fair value on a recurring basis

a. Fair value hierarchy

FY2016 (As of March 31, 2017)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at FVTPL				
Other financial assets	—	2,203	1,998	4,202
Financial assets measured at FVTOCI				
Other financial assets	14,977	—	2,200	17,178
Total	14,977	2,203	4,199	21,380
Liabilities:				
Financial liabilities measured at FVTPL				
Other financial liabilities	—	7,253	—	7,253
Total	—	7,253	—	7,253

FY2017 (As of March 31, 2018)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at FVTPL				
Other financial assets	—	1,980	2,631	4,611
Financial assets measured at FVTOCI				
Other financial assets	18,144	—	2,262	20,406
Total	18,144	1,980	4,893	25,018
Liabilities:				
Financial liabilities measured at FVTPL				
Other financial liabilities	—	8,258	—	8,258
Total	—	8,258	—	8,258

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at FVTPL				
Other financial assets	—	18,679	24,821	43,500
Financial assets measured at FVTOCI				
Other financial assets	171,170	—	21,340	192,509
Total	171,170	18,679	46,160	236,019
Liabilities:				
Financial liabilities measured at FVTPL				
Other financial liabilities	—	77,906	—	77,906
Total	—	77,906	—	77,906

b. Changes in financial assets of Level 3

The following are changes in financial instruments measured at fair value that are categorized as Level 3.

FY2016 (Year ended March 31, 2017)

(Millions of yen)

	Fair value measurement at the end of the reporting period		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Balance as of April 1, 2016	1,711	1,890	3,602
Total gains and losses	(28)	255	226
Profit or loss (Note 1)	(28)	―	(28)
Other comprehensive income (Note 2)	―	255	255
Purchase	338	104	442
Sale, etc.	―	(50)	(50)
Foreign exchange differences	(4)	(0)	(4)
Other	(17)	―	(17)
Balance as of March 31, 2017	1,998	2,200	4,199

(Note 1) Gains and losses included in profit or loss are related to financial assets measured at fair value through profit or loss at each reporting date. These gains and losses are included in “Other income” and “Other expenses” in the consolidated statement of income. Of these gains and losses, the amount associated with financial assets held as of March 31, 2017 is ¥(28) million.

(Note 2) Gains and losses included in other comprehensive income are related to financial assets measured at fair value through other comprehensive income at each reporting date. These gains and losses are included in “Gains on investments in equity instruments designated as FVTOCI” in the consolidated statement of comprehensive income.

FY2017 (Year ended March 31, 2018)

(Millions of yen)

	Fair value measurement at the end of the reporting period		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Balance as of April 1, 2017	1,998	2,200	4,199
Total gains and losses	560	56	616
Profit or loss (Note 1)	560	―	560
Other comprehensive income (Note 2)	―	56	56
Purchase	631	5	636
Sale, etc.	(317)	(5)	(322)
Foreign exchange differences	(44)	0	(44)
Other	(196)	4	(192)
Balance as of March 31, 2018	2,631	2,262	4,893

(Note 1) Gains and losses included in profit or loss are related to financial assets measured at fair value through

profit or loss at each reporting date. These gains and losses are included in “Other income” and “Other expenses” in the consolidated statement of income. Of these gains and losses, the amount associated with financial assets held as of March 31, 2018 is ¥413 million.
(Note 2) Gains and losses included in other comprehensive income are related to financial assets measured at fair value through other comprehensive income at each reporting date. These gains and losses are included in “Gains on investments in equity instruments designated as FVTOCI” in the consolidated statement of comprehensive income.

FY2017 (Year ended March 31, 2018)

(Thousands of U.S. dollars)

	Fair value measurement at the end of the reporting period		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Balance as of April 1, 2017	18,849	20,755	39,613
Total gains and losses	5,283	528	5,811
Profit or loss (Note 1)	5,283	—	5,283
Other comprehensive income (Note 2)	—	528	528
Purchase	5,953	47	6,000
Sale, etc.	(2,991)	(47)	(3,038)
Foreign exchange differences	(415)	0	(415)
Other	(1,849)	38	(1,811)
Balance as of March 31, 2018	24,821	21,340	46,160

(Note 1) Gains and losses included in profit or loss are related to financial assets measured at fair value through profit or loss at each reporting date. These gains and losses are included in “Other income” and “Other expenses” in the consolidated statement of income. Of these gains and losses, the amount associated with financial assets held as of March 31, 2018 is $3,896 thousand.
(Note 2) Gains and losses included in other comprehensive income are related to financial assets measured at fair value through other comprehensive income at each reporting date. These gains and losses are included in “Gains on investments in equity instruments designated as FVTOCI” in the consolidated statement of comprehensive income.

<3> Financial instruments not measured at fair value

With regard to financial instruments not measured at fair value, fair value measurements are classified in Level 1, 2 and 3 based on the observability and significance of inputs used for the measurement.

FY2016 (As of March 31, 2017)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets: Other financial assets	8,949	9,003	—	17,953
Total	8,949	9,003	—	17,953
Liabilities: Bonds and borrowings	—	136,580	—	136,580
Other financial liabilities	—	6,769	—	6,769
Total	—	143,350	—	143,350

FY2017 (As of March 31, 2018)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets: Other financial assets	—	22,924	—	22,924
Total	—	22,924	—	22,924
Liabilities: Bonds and borrowings	—	115,983	—	115,983
Other financial liabilities	—	7,109	—	7,109
Total	—	123,093	—	123,093

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Assets: Other financial assets	—	216,264	—	216,264
Total	—	216,264	—	216,264
Liabilities: Bonds and borrowings	—	1,094,179	—	1,094,179
Other financial liabilities	—	67,066	—	67,066
Total	—	1,161,255	—	1,161,255

(6) Investments in equity instruments designated as at FVTOCI

The investments in equity instruments are held not for trading. Instead, they are held for strategic purposes in order to ensure smooth business operations. Accordingly, the Company has elected to designate these investments in equity instruments as at FVTOCI. Major investments in equity instruments and their fair values are as follows:

	FY2016 (As of March 31, 2017) (Millions of yen)	FY2017 (As of March 31, 2018) (Millions of yen)	FY2017 (As of March 31, 2018) (Thousands of U.S. dollars)
Nidec Corporation	3,464	5,359	50,557
Zeon Corporation	3,005	3,637	34,311
Citizen Watch Co., Ltd.	2,180	2,333	22,009
Makita Corporation	1,520	1,528	14,415
Toho Gas Co., Ltd.	787	654	6,170
Other	6,220	6,894	65,038
Total	17,178	20,406	192,509

The breakdown of dividends received that are recognized from equity instruments is as follows:

	FY2016 (Year ended March 31, 2017) (Millions of yen)	FY2017 (Year ended March 31, 2018) (Millions of yen)	FY2017 (Year ended March 31, 2018) (Thousands of U.S. dollars)
Financial assets held at the end of the period	270	259	2,443
Financial assets derecognized during the period	20	4	38

Equity instruments are sold taking into consideration the fair value status and operational needs. The fair value of the items sold during the period at the date of derecognition and the cumulative gain or loss recognized in other comprehensive income are as follows:

	FY2016 (Year ended March 31, 2017) (Millions of yen)	FY2017 (Year ended March 31, 2018) (Millions of yen)	FY2017 (Year ended March 31, 2018) (Thousands of U.S. dollars)
Fair value	2,292	532	5,019
Cumulative gain or loss	753	247	2,330

Changes in the fair value of equity instruments recognized in other comprehensive income are reclassified in retained earnings immediately when they occur. The cumulative amount of gain or loss on such reclassification is ¥2,644 million and ¥2,462 million ($23,226 thousand) for the years ended March 31, 2017 and 2018, respectively.

(7) Offsetting financial assets and financial liabilities

The following tables show the amounts of financial assets and liabilities offset in the consolidated statement of financial position and those that are subject to enforceable master netting agreements or similar agreements with counterparties as of March 31, 2017 and 2018:

FY2016 (As of March 31, 2017)

(Millions of yen)

Financial assets	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	105,559	(9,447)	96,112	—	96,112
Derivatives	1,059	(0)	1,059	(213)	846
Total	106,619	(9,447)	97,171	(213)	96,958

The aforementioned "Derivatives" are included in "Other financial assets" in the consolidated statement of financial position.

(Millions of yen)

Financial liabilities	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	75,716	(9,447)	66,268	—	66,268
Derivatives	7,253	(0)	7,253	(213)	7,039
Total	82,970	(9,447)	73,522	(213)	73,308

The aforementioned "Derivatives" are included in "Other financial liabilities" in the consolidated statement of financial position.

FY2017 (As of March 31, 2018)

(Millions of yen)

Financial assets	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	112,497	(7,872)	104,624	—	104,624
Derivatives	1,359	(0)	1,359	—	1,359
Total	113,856	(7,872)	105,984	—	105,984

The aforementioned "Derivatives" are included in "Other financial assets" in the consolidated statement of financial position.

(Thousands of U.S. dollars)

Financial assets	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	1,061,292	(74,264)	987,019	—	987,019
Derivatives	12,821	(0)	12,821	—	12,821
Total	1,074,113	(74,264)	999,849	—	999,849

(Millions of yen)

Financial liabilities	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	76,061	(7,872)	68,189	—	68,189
Derivatives	8,259	(0)	8,258	—	8,258
Total	84,320	(7,872)	76,448	—	76,448

The aforementioned "Derivatives" are included in "Other financial liabilities" in the consolidated statement of financial position.

(Thousands of U.S. dollars)

Financial liabilities	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	717,557	(74,264)	643,292	—	643,292
Derivatives	77,915	(0)	77,906	—	77,906
Total	795,472	(74,264)	721,208	—	721,208

Financial assets and collateral pledged subject to enforceable master netting arrangements and similar agreements are to be set off at the net amounts, if a certain condition, such as a default or cancellation in the arrangement, is met.

(8) Gains and losses arising on financial instruments

The total amounts of gains and losses arising on financial instruments are as follows:

(Millions of yen) (Thousands of U.S. dollars)

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Financial instruments measured at FVTPL (derivatives)	3,664	(6,931)	(65,387)
Financial instruments measured at FVTPL (other than derivatives) (Note)	(15)	568	5,358
Equity instruments measured at FVTOCI	290	263	2,481
Financial assets measured at amortized cost	250	678	6,396
Financial liabilities measured at amortized cost	(1,387)	(1,213)	(11,443)
Total	2,803	(6,635)	(62,594)

(Note) Net gains and losses arising on financial instruments other than derivatives measured at FVTOCI include interest income.

42. Significant Subsidiaries

Details of significant consolidated subsidiaries as of March 31, 2018, are as follows:

	Capital in thousands of local currency		Principal business	Equity ownership percentage As of March 31, 2018	
				Directly	Indirectly
Brother International Corporation (U.S.A.)	US$	7,034	P&S, P&H, Machinery	100.0 %	—
Brother International Corporation (Canada) Ltd.	C$	11,592	P&S, P&H	—	100.0 %
Brother International De Mexico, S.A. De C.V.	MEX$	125,926	P&S, P&H	—	100.0
Brother Industries (U.S.A.) Inc.	US$	14,000	P&S, Macinery	—	100.0
Brother International Corporation Do Brazil, Ltda.	R$	49,645	P&S, P&H	—	100.0
Brother Sewing Machines Europe Gmbh	EURO	25	P&H	—	100.0
Brother Nordic A/S	DKr.	42,000	P&S	—	100.0
Brother International Europe Ltd.	Stg.£	26,500	P&S	—	100.0
Brother Holding (Europe) Ltd.	Stg.£	87,013	Other (Holding company)	100.0	—
Brother U.K. Ltd.	Stg.£	17,400	P&S	—	100.0
Brother Internationale Industriemachinen GmbH	EURO	9,000	Machinery	—	100.0
Brother France SAS	EURO	12,000	P&S	—	100.0
Brother International GmbH	EURO	25,000	P&S	—	100.0
Brother Italia S.p.A.	EURO	3,700	P&S	—	100.0
Domino Printing Sciences plc	Stg.£	5,733	Domino	100.0	—
Domino UK Ltd.	Stg.£	0.1	Domino	—	100.0
Domino Amjet, Inc.	US$	1	Domino	—	100.0
Brother Industries (U.K.) Ltd.	Stg.£	9,700	P&S	100.0	—
Brother Finance (U.K.) Plc	Stg.£	2,500	Other (Finance)	100.0	—
Brother Industries (Slovakia) s.r.o.	EURO	5,817	P&S	—	100.0
Taiwan Brother Industries, Ltd.	NT$	242,000	P&H	100.0	—
Zhuhai Brother Industries, Co., Ltd.	CNY	49,105	P&S, Domino	100.0	—
Brother International (HK) Ltd.	US$	11,630	P&S	100.0	—
Brother International (Aust.) Pty. Ltd.	A$	2,500	P&S, P&H, Machinery	100.0	—
Brother International Singapore Pte. Ltd.	US$	9,527	P&S, P&H	—	100.0
Brother Machinery (Asia) Ltd.	US$	37,000	Machinery	100.0	—
Brother Machinery Xian Co., Ltd.	CNY	282,712	Machinery	100.0	—
Brother (China) Ltd.	CNY	168,465	P&S, P&H	100.0	—
Brother Industries (Vietnam) Ltd.	US$	80,000	P&S	100.0	—
Brother Technology (Shenzhen) Ltd.	CNY	297,755	P&S	—	100.0
Brother Machinery Shanghai Ltd.	CNY	50,000	Machinery	—	100.0
Brother Industries Saigon, Ltd.	US$	28,000	P&H	100.0	—
Brother Industries (Philippines), Inc.	US$	134,000	P&S	100.0	—
Nissei Gear Motor Mfg (Changzhou) Co., Ltd.	CNY	111,600	Machinery	—	100.0
Brother Machinery Vietnam Co., Ltd.	US$	41,000	Machinery	100.0	—

	Capital in thousands of local currency	Principal business	Equity ownership percentage As of March 31, 2018	
			Directly	Indirectly
Brother International Corporation (Japan)	JPY 630 million	P&S, P&H	100.0	－
Brother Real Estate, Ltd.	JPY 300 million	Other (Real estate)	100.0	－
Xing Inc.	JPY 7,122 million	N&C	100.0	－
Brother Sales, Ltd.	JPY 3,500 million	P&S, P&H	100.0	－
Teichiku Entertainment, Inc.	JPY 124 million	N&C	－	96.1
Nissei Corporation	JPY 3,475 million	Machinery	60.2	－
Standard Corp.	JPY 90 million	N&C	－	100.0

(Note) "P&S" represents Printing & Solutions Business, "P&H" Personal & Home Business, and "N&C" Network & Contents Business.

The Company recognizes a significant non-controlling interest in Nissei Corporation.
Details of the non-controlling interest in Nissei Corporation are as follows:

Ownership ratio and voting rights ratio of the non-controlling interest

FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)
39.8%	39.8%

Profit allocated to the non-controlling interest

	(Millions of yen)	(Thousands of U.S. dollars)
FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
185	370	3,491

Accumulated amount attributable to the non-controlling interest

	(Millions of yen)	(Thousands of U.S. dollars)
FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
16,938	17,190	162,170

The summarized financial statements of Nissei Corporation are as follows. Amounts in the summarized financial statements are before the elimination of intra-group transactions.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Current assets	21,621	16,864	159,094
Non-current assets	24,631	30,042	283,415
Current liabilities	3,465	3,581	33,783
Non-current liabilities	485	418	3,943

	(Millions of yen)		Thousands of U.S. dollars)
	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Revenue	17,646	19,053	179,745
Profit for the year	479	900	8,491
Comprehensive income for the year	620	1,215	11,462
Cash dividends paid to non-controlling interests	209	243	2,292
Net cash provided by operating activities	2,467	1,561	14,726
Net cash used in investing activities	1,389	(3,827)	(36,104)
Net cash used in financing activities	(548)	(632)	(5,962)
Net cash flow	3,307	(2,899)	(27,349)

43. Related Parties

(1) Related party transactions

FY2016 (Year ended March 31, 2017)

(Millions of yen)

Category	Name	Contents of related party relationship	Amount of transaction	Outstanding balance at the end of the period
Associates	Abeam Systems Corporation	Outsourcing of software developments	3,937	1,219

(Note)
1) Related party transactions are negotiated and decided separately.
2) No collateral is set for balance at the end of the period. All settlement is done in cash.

FY2017 (Year ended March 31, 2018)

(Millions of yen)

Category	Name	Contents of related party relationship	Amount of transaction	Outstanding balance at the end of the period
Associates	Showa Seiki Co., Ltd.	Outsourcing of manufacturing of the Company's products	7,692	992
	Abeam Systems Corporation	Outsourcing of software developments	4,880	1,204
Close relative of director	Close relative of Tadashi Ishiguro (Note 3)	Contract work of housing	17 (Note 4)	—

(Thousands of U.S. dollars)

Category	Name	Contents of related party relationship	Amount of transaction	Outstanding balance at the end of the period
Associates	Showa Seiki Co., Ltd.	Outsourcing of manufacturing of the Company's products	72,566	9,358
	Abeam Systems Corporation	Outsourcing of software developments	46,038	11,358
Close relative of director	Close relative of Tadashi Ishiguro (Note 3)	Contract work of housing	160 (Note 4)	—

(Note)

1) Related party transactions are negotiated and decided separately.

2) No collateral is set for balance at the end of the period. All settlement is done in cash.

3) The close relative is the spouse of Tadashi Ishiguro, Representative Director & Senior Managing Executive Officer of the Company.

4) The amount is an advance received, which is a part of the ¥51 million ($ 481 thousand) contract.

(2) Compensation for key management personnel

(Millions of yen) (Thousands of U.S. dollars)

	FY2016 (Year ended March 31, 2017)	FY2017 (Year ended March 31, 2018)	FY2017 (Year ended March 31, 2018)
Short-term employee benefits	301	358	3,377
Share-based payments	58	57	538
Total	360	415	3,915

44. Commitments

Commitments related to expenditures after the end of the reporting period are as follows:

(Millions of yen) (Thousands of U.S. dollars)

	FY2016 (As of March 31, 2017)	FY2017 (As of March 31, 2018)	FY2017 (As of March 31, 2018)
Acquisition of property, plant and equipment	4,618	3,017	28,462
Acquisition of intangible assets	70	98	925
Total	4,688	3,116	29,396

45. Contingent Liabilities

Not applicable.

46. Subsequent Events

No material subsequent events were identified for the period up to June 26, 2018.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of BROTHER INDUSTRIES, LTD.:

We have audited the accompanying consolidated balance sheet of BROTHER INDUSTRIES, LTD. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BROTHER INDUSTRIES, LTD. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Member of
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Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2 (3) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 26, 2018

Member of
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