Consolidated Financial Statements

NHK Spring Co., Ltd.
and Consolidated Subsidiaries

For the years ended March 31, 2018 and 2017
with Independent Auditor's Report

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Independent Auditor's Report

The Board of Directors
NHK Spring Co., Ltd.

We have audited the accompanying consolidated financial statements of NHK Spring Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NHK Spring Co., Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 27, 2018
Tokyo, Japan

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	At March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and bank deposits *(Notes 4 and 20)*	¥ 95,252	¥ 82,576	$ 896,908
Notes and accounts receivable, trade *(Note 20)*	146,781	140,343	1,382,123
Allowance for doubtful notes and accounts	(88)	(56)	(830)
Inventories *(Note 5)*	48,590	44,036	457,530
Deferred tax assets *(Note 15)*	5,667	5,305	53,360
Other current assets	24,427	22,548	230,015
Total current assets	320,629	294,752	3,019,106
Investments and long-term receivables:			
Investment securities *(Notes 10 and 20)*	54,990	58,178	517,792
Investments in unconsolidated subsidiaries and affiliated companies *(Note 20)*	17,089	20,669	160,912
Long-term loans receivable *(Note 20)*	8,720	10,383	82,108
Deferred tax assets *(Note 15)*	6,272	5,533	59,059
Net defined benefit asset *(Note 11)*	4,620	2,825	43,499
Other investments	2,535	3,355	23,974
Allowance for doubtful receivables	(874)	(1,084)	(8,227)
Total investments and long-term receivables	93,352	99,859	879,017
Property, plant and equipment:			
Buildings and structures	143,499	137,065	1,351,214
Machinery and transport equipment	241,938	231,875	2,278,139
Jigs, tools and equipment	68,431	66,435	644,360
Land	30,516	30,700	287,341
Construction in progress	12,071	5,990	113,667
	496,455	472,065	4,674,721
Less – Accumulated depreciation	(341,564)	(328,824)	(3,216,238)
Net property, plant and equipment	154,891	143,241	1,458,483
Intangible and other assets	3,707	3,889	34,913
Total assets *(Note 22)*	¥572,579	¥541,741	$ 5,391,519

	At March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Short-term borrowings *(Notes 12 and 20)*	¥ 4,773	¥ 2,215	$ 44,947
Current portion of long-term debt *(Notes 12, 13 and 20)*	12,547	19,781	118,147
Notes and accounts payable, trade *(Note 20)*	131,145	115,904	1,234,885
Accrued expenses	20,961	20,238	197,371
Accrued income taxes *(Note 20)*	6,074	7,245	57,197
Deferred tax liabilities *(Note 15)*	751	813	7,071
Allowance for directors bonuses	268	278	2,527
Other current liabilities *(Note 20)*	16,270	14,051	153,200
Total current liabilities	192,789	180,525	1,815,345
Long-term liabilities:			
Long-term debt *(Notes 12 and 20)*	25,339	20,176	238,596
Convertible bond-type bonds with subscription rights to shares *(Notes 12 and 20)*	10,624	11,219	100,038
Net defined benefit liability *(Note 11)*	15,859	13,926	149,336
Accrued retirement benefits for directors and corporate auditors	507	580	4,776
Accrued retirement benefits to corporate officers	811	746	7,635
Deferred tax liabilities *(Note 15)*	12,863	12,979	121,116
Other long-term liabilities *(Note 20)*	6,138	8,813	57,796
Total long-term liabilities	72,141	68,439	679,293
Guarantees and contingent liabilities *(Note 17)*			
Net assets:			
Shareholders' equity			
Common stock:			
Authorized: 600,000,000 shares			
Issued: 244,066,144 shares at March 31, 2018;			
244,066,144 shares at March 31, 2017	17,010	17,010	160,165
Capital surplus	19,579	19,579	184,360
Retained earnings *(Notes 16 and 24)*	229,163	216,233	2,157,848
Treasury stock	(7,517)	(7,516)	(70,781)
Total shareholders' equity	258,235	245,306	2,431,592
Accumulated other comprehensive income:			
Unrealized holding gain on securities	27,935	30,177	263,045
Translation adjustments	7,355	6,570	69,257
Retirement benefit liability adjustments *(Note 11)*	(688)	(2,353)	(6,484)
Total accumulated other comprehensive income	34,602	34,394	325,818
Non-controlling interests	14,812	13,077	139,471
Total net assets	307,649	292,777	2,896,881
Total liabilities and net assets	¥572,579	¥541,741	$5,391,519

The accompanying notes are an integral part of the financial statements.

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

	Years ended March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 22)*	¥659,731	¥ 626,950	$6,212,154
Cost of sales *(Note 14)*	578,785	542,831	5,449,951
Gross profit	80,946	84,119	762,203
Selling, general and administrative expenses *(Note 14)*	45,405	43,505	427,540
Operating profit *(Note 22)*	35,541	40,614	334,663
Other income (expenses):			
Interest income	941	963	8,861
Dividend income	1,578	1,250	14,861
Gain on sales of fixed assets	74	62	694
Real estate rent	633	623	5,959
Interest expenses	(335)	(184)	(3,152)
Equity in earnings (losses) of unconsolidated subsidiaries and affiliated companies	883	(223)	8,315
Exchange loss, net	(1,945)	(926)	(18,315)
Gain on sales of investment securities	2,386	–	22,467
Gain on revision of retirement benefit plan *(Note 11)*	–	1,064	–
Loss on impairment of long-lived assets *(Note 6)*	(3,929)	(1,659)	(36,997)
Loss on valuation of shares of subsidiaries and affiliated companies *(Note 10)*	(831)	(1,450)	(7,826)
Loss on valuation of investments in capital of subsidiaries and affiliated companies	(10)	(36)	(96)
Loss on business of subsidiaries and affiliated companies *(Note 7)*	–	(207)	–
Loss on plant closing *(Note 8)*	–	(1,109)	–
Loss on violation of antimonopoly laws *(Note 9)*	(1,392)	(576)	(13,111)
Other, net	(949)	(537)	(8,935)
	(2,896)	(2,945)	(27,275)
Profit before income taxes	32,645	37,669	307,388
Income taxes *(Note 15)*:			
Current	10,231	11,647	96,331
Deferred	(199)	(903)	(1,871)
	10,032	10,744	94,460
Profit	22,613	26,925	212,928
Profit attributable to non-controlling interests	2,117	1,826	19,937
Profit attributable to owners of parent	¥ 20,496	¥ 25,099	$ 192,991
	(Yen)		*(U.S. dollars)*
Earnings per share *(Notes 1 (19) and 16)*			
– Basic	¥ 86.45	¥103.70	$ 0.8140
– Diluted	83.23	99.91	0.7837
Cash dividends per share	23.00	23.00	0.2166

The accompanying notes are an integral part of the financial statements.

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

	Years ended March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Profit	¥ 22,613	¥ 26,925	$ 212,928
Other comprehensive income *(Note 21)*:			
Unrealized holding (loss) gain on securities	(2,231)	8,675	(21,009)
Translation adjustments	1,359	(3,299)	12,798
Retirement benefit liability adjustments	1,693	3,457	15,937
Share of other comprehensive loss of affiliated companies accounted for by the equity method	(231)	(31)	(2,171)
Total other comprehensive income	590	8,802	5,555
Comprehensive income	¥ 23,203	¥ 35,727	$ 218,483
Comprehensive income attributable to:			
Owners of parent	¥ 20,675	¥ 34,340	$ 194,676
Non-controlling interests	2,528	1,387	23,807

The accompanying notes are an integral part of the financial statements.

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Millions of yen)				
Balances as of April 1, 2017	¥17,010	¥19,579	¥216,233	¥(7,516)	¥245,306
Changes during the fiscal year:					
Dividends paid			(5,454)		(5,454)
Profit attributable to owners of parent			20,496		20,496
Change in scope of consolidation			(2,112)		(2,112)
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		0		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(0)			(0)
Net changes of items other than shareholders' equity					
Total changes during the fiscal year	–	(0)	12,930	(1)	12,929
Balances as of March 31, 2018	¥17,010	¥19,579	¥229,163	¥(7,517)	¥258,235

	Accumulated other comprehensive income					
	Unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Millions of yen)					
Balances as of April 1, 2017	¥30,177	¥6,570	¥(2,353)	¥34,394	¥13,077	¥292,777
Changes during the fiscal year:						
Dividends paid						(5,454)
Profit attributable to owners of parent						20,496
Change in scope of consolidation						(2,112)
Purchase of treasury stock						(1)
Disposal of treasury stock						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(0)
Net changes of items other than shareholders' equity	(2,242)	785	1,665	208	1,735	1,943
Total changes during the fiscal year	(2,242)	785	1,665	208	1,735	14,872
Balances as of March 31, 2018	¥27,935	¥7,355	¥(688)	¥34,602	¥14,812	¥307,649

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Millions of yen)				
Balances as of April 1, 2016	¥17,010	¥19,405	¥196,478	¥(802)	¥232,091
Changes during the fiscal year:					
Dividends paid			(5,344)		(5,344)
Profit attributable to owners of parent			25,099		25,099
Purchase of treasury stock				(6,714)	(6,714)
Disposal of treasury stock		0		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		174			174
Net changes of items other than shareholders' equity					
Total changes during the fiscal year	–	174	19,755	(6,714)	13,215
Balances as of March 31, 2017	¥17,010	¥19,579	¥216,233	¥(7,516)	¥245,306

	Accumulated other comprehensive income					
	Unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Millions of yen)					
Balances as of April 1, 2016	¥21,513	¥9,442	¥(5,803)	¥25,152	¥12,595	¥269,838
Changes during the fiscal year:						
Dividends paid						(5,344)
Profit attributable to owners of parent						25,099
Purchase of treasury stock						(6,714)
Disposal of treasury stock						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						174
Net changes of items other than shareholders' equity	8,664	(2,872)	3,450	9,242	482	9,724
Total changes during the fiscal year	8,664	(2,872)	3,450	9,242	482	22,939
Balances as of March 31, 2017	¥30,177	¥6,570	¥(2,353)	¥34,394	¥13,077	¥292,777

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets (continued)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 3)				
Balances as of April 1, 2017	$160,165	$184,361	$2,036,090	$(70,770)	$2,309,846
Changes during the fiscal year:					
Dividends paid			(51,348)		(51,348)
Profit attributable to owners of parent			192,991		192,991
Change in scope of consolidation			(19,885)		(19,885)
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		0		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1)			(1)
Net changes of items other than shareholders' equity					
Total changes during the fiscal year	–	(1)	121,758	(11)	121,746
Balances as of March 31, 2018	$160,165	$184,360	$2,157,848	$(70,781)	$2,431,592

	Accumulated other comprehensive income					
	Unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Thousands of U.S. dollars) (Note 3)					
Balances as of April 1, 2017	$284,150	$61,870	$(22,156)	$323,864	$123,139	$2,756,849
Changes during the fiscal year:						
Dividends paid						(51,348)
Profit attributable to owners of parent						192,991
Change in scope of consolidation						(19,885)
Purchase of treasury stock						(11)
Disposal of treasury stock						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(1)
Net changes of items other than shareholders' equity	(21,105)	7,387	15,672	1,954	16,332	18,286
Total changes during the fiscal year	(21,105)	7,387	15,672	1,954	16,332	140,032
Balances as of March 31, 2018	$263,045	$69,257	$(6,484)	$325,818	$139,471	$2,896,881

The accompanying notes are an integral part of the financial statements.

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

	Years ended March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Cash flows from operating activities:			
Profit before income taxes	¥ 32,645	¥ 37,669	$ 307,388
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	24,141	23,138	227,319
Decrease in net defined benefit liability	(828)	(718)	(7,801)
Exchange loss	1,314	346	12,376
Equity in (earnings) losses of unconsolidated subsidiaries and affiliated companies	(883)	223	(8,315)
Loss on disposal of property, plant and equipment	384	254	3,619
Loss on impairment of long-lived assets	3,929	1,659	36,997
Gain on sales of investment securities	(2,386)	(31)	(22,467)
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable, trade	(4,927)	(8,420)	(46,393)
Increase in inventories	(4,243)	(1,172)	(39,956)
Increase in notes and accounts payable, trade	14,065	5,869	132,434
Other, net	(13,399)	(3,153)	(126,164)
Net cash provided by operating activities	49,812	55,664	469,037
Cash flows from investing activities:			
Proceeds from sales of property, plant and equipment	1,562	784	14,708
Purchase of property, plant and equipment	(31,529)	(24,408)	(296,881)
Purchase of intangible assets	(556)	(210)	(5,236)
Purchase of investment securities	(3,099)	(3,890)	(29,179)
Proceeds from sales of investment securities	2,465	611	23,210
(Increase) decrease in time deposits	(153)	219	(1,437)
Disbursements for loans receivable	(5,547)	(5,258)	(52,231)
Collection of loans receivable	4,080	4,516	38,415
Other, net	(178)	(117)	(1,682)
Net cash used in investing activities	(32,955)	(27,753)	(310,313)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	15,025	16,000	141,474
Repayment of long-term debt	(13,112)	(8,560)	(123,468)
Increase in short-term borrowings	2,657	748	25,021
Proceeds from commercial paper	20,000	51,000	188,324
Repayment of commercial paper	(24,000)	(53,000)	(225,989)
Redemption of bonds	–	(10,000)	–
Payment for purchase of treasury stock	(1)	(6,714)	(11)
Proceeds from sales of treasury stock	0	0	0
Cash dividends paid	(5,454)	(5,344)	(51,348)
Cash dividends paid to non-controlling shareholders	(794)	(719)	(7,476)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(8)	–
Other, net	(281)	(319)	(2,652)
Net cash used in financing activities	(5,960)	(16,916)	(56,125)
Effect of exchange rate changes on cash and cash equivalents	216	(739)	2,040
Net increase in cash and cash equivalents	11,113	10,256	104,639
Cash and cash equivalents at beginning of year	82,494	72,238	776,778
Increase in cash and cash equivalents resulting from subsidiaries newly included in consolidation	1,400	–	13,191
Cash and cash equivalents at end of year (*Note 4*)	¥ 95,007	¥ 82,494	$ 894,608
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	¥ (349)	¥ (180)	$ (3,289)
Income taxes	(11,372)	(8,139)	(107,082)

The accompanying notes are an integral part of the financial statements.

NHK Spring Co., Ltd. and Consolidated Subsidiaries

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(1) Basis of presentation of consolidated financial statements

The accompanying consolidated financial statements of NHK Spring Co., Ltd. (the "Company") and consolidated subsidiaries (collectively, the "Group") have been prepared by the Company in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accounts of the Company and its consolidated subsidiaries in Japan are maintained in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and in conformity with generally accepted accounting principles and practices prevailing in Japan.

Foreign consolidated subsidiaries of the Company maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

(2) Scope of consolidation and application of equity method

The Company had 72 subsidiaries at March 31, 2018 (71 at March 31, 2017). The accompanying consolidated financial statements for the year ended March 31, 2018 include the accounts of the Company and its 37 significant subsidiaries (35 in 2017).

The accounts of the remaining 35 unconsolidated subsidiaries for the year ended March 31, 2018 (36 in 2017) were excluded from consolidation since the aggregate amounts of these subsidiaries' combined assets, net sales, profit and retained earnings were immaterial in relation to those of the consolidated financial statements of the Group.

1. Summary of Significant Accounting Policies (continued)

(2) Scope of consolidation and application of equity method (continued)

The Company had 11 (12 in 2017) affiliated companies at March 31, 2018. For the year ended March 31, 2018, the equity method has been applied to the investments in 4 of the major unconsolidated subsidiaries (4 in 2017) and 5 of the major affiliated companies (5 in 2017). The investments in the remaining unconsolidated subsidiaries and affiliated companies were stated at cost or less because they did not have a material effect on the consolidated financial statements.

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Group have been eliminated.

The difference between the cost of an investment in a consolidated subsidiary and the amount of the underlying equity in the net assets of the subsidiary is allocated to identifiable assets acquired and liabilities assumed based on their fair value at the date of acquisition.

Goodwill is amortized on a straight-line basis over a period within five years.

(3) Foreign currency translation

All asset and liability accounts of foreign subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates prevailing at the year end. The components of net assets excluding non-controlling interests of foreign subsidiaries and affiliated companies are translated at historical rates. All income and expense accounts are translated at rates prevailing at the time of the transactions. The resulting translation differences are debited or credited to translation adjustments, or non-controlling interests in the consolidated balance sheets. Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the year end and the resulting gains and losses are included in profit or loss for the year.

(4) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(5) Inventories

Inventories are mainly stated at the lower of cost, determined by average cost, or market.

1. Summary of Significant Accounting Policies (continued)

(6) Investment securities

Available-for-sale securities categorized as “other securities” under applicable Japanese accounting standards for which market values are readily available are stated at fair market value at the balance sheet date, with unrealized gains or losses reported as a separate component of net assets, net of applicable income taxes. Available-for-sale securities for which market values are not readily available are stated at weighted average cost.

The amortized cost (straight-line) method has been used for held-to-maturity securities.

(7) Derivative financial instruments and hedge accounting

In accordance with applicable Japanese accounting standards, gains or losses arising from changes in the fair value of derivative financial instruments designated as “hedging instruments” are deferred as an asset or a liability until the gains or losses on the underlying hedged items or transactions are recognized.

In accordance with the exceptional treatment permitted under the Japanese accounting standard for foreign currency translation, the Company does not record certain forward foreign exchange contracts, currency swap contracts, foreign currency option contracts and certain foreign currency interest arrangements at market value but translates the underlying foreign currency denominated assets and liabilities hedged by derivative transactions into yen using the contractual rates under these arrangements, provided that such arrangements meet the hedging criteria specified under applicable Japanese accounting standards.

In addition, in accordance with the special treatment permitted under applicable Japanese accounting standards, the Company does not record certain interest-rate swap arrangements at market value but charges or credits net cash flows arising from the interest-rate swap arrangements, which satisfy the hedging criteria specified under the standard, to interest expenses arising from the hedged interest-bearing debt.

(8) Property, plant and equipment (excluding leased assets)

Depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives of the respective assets as prescribed by the Corporation Tax Act of Japan.

Buildings and structures at the Company’s headquarters are depreciated by the straight-line method.

1. Summary of Significant Accounting Policies (continued)

(8) Property, plant and equipment (excluding leased assets) (continued)

The Company and its domestic consolidated subsidiaries compute depreciation for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016 by the straight-line method.

The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gains or losses are reflected in income as incurred.

Normal repairs and maintenance, including minor renewals and improvements, are charged to expenses as incurred.

(9) Intangible assets (excluding leased assets)

Intangible assets are amortized on a straight-line basis.

Expenditure related to computer software development for internal use is capitalized as an intangible asset and amortized on a straight-line basis over the estimated useful life (five years) of the software.

(10) Leases

Leased assets under finance lease contracts that transfer ownership to the lessee are depreciated by the same depreciation methods as applied to equivalent assets owned by the Group using the economic useful lives of the leased assets.

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated with the residual value of zero by the straight-line method using the terms of the contracts as the useful lives.

(11) Allowance for doubtful accounts

The Group provides an allowance for doubtful accounts at an amount calculated using a bad debt loss ratio primarily based on historical experience, plus the estimated uncollectible amount of individual receivables.

(12) Allowance for directors bonuses

Bonuses to directors are recorded on an accrual basis with a related charge to income.

1. Summary of Significant Accounting Policies (continued)

(13) Retirement benefits for employees

The retirement benefit obligations for employees are attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service costs are amortized as incurred by the straight-line method over a certain period (mainly 15 to 16 years), which is within the average remaining years of service of the eligible employees.

Actuarial gains and losses are amortized in the year following the year in which the gains or losses are recognized by the straight-line method over a certain period (10 to 16 years), which is within the average remaining years of service of the eligible employees.

Certain consolidated subsidiaries apply the simplified method where the amount required for voluntary early retirement at the fiscal year end is treated as retirement benefit obligations for calculating net defined benefit liability and retirement benefit expenses.

(14) Accrued retirement benefits for directors and corporate auditors

As is customary practice in Japan, the Company and its domestic consolidated subsidiaries pay lump-sum retirement benefits to retiring directors or corporate auditors, the amounts of which are determined by internal rules. Although the payment of such retirement benefits is subject to approval by shareholders at the time of retirement/resignation, the Company and its domestic consolidated subsidiaries recognize 100% of the liabilities they would be required to pay upon retirement of all directors and corporate auditors at the year-end date.

(15) Accrued retirement benefits for corporate officers

The Company and its domestic consolidated subsidiaries recognize 100% of the liabilities they would be required to pay upon retirement of all corporate officers at the fiscal year end.

(16) Income taxes

The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

(17) Consumption taxes

In Japan, consumption taxes are imposed at a flat rate of 8% on all domestic consumption of goods and services (with certain exceptions). Consumption taxes imposed on the Group’s domestic sales to customers are withheld by the Group at the time of sale and are paid to the national government subsequently. Consumption taxes withheld upon sale and consumption taxes paid by the Group on purchases of goods and services are not included in the related amounts in the accompanying consolidated statements of income.

1. Summary of Significant Accounting Policies (continued)

(18) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements in order to make them consistent with the current year's presentation.

(19) Earnings per share

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock, assuming the full exercise of the outstanding subscription rights to shares.

2. Accounting Standards Issued but Not Yet Effective

"Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, issued on March 30, 2018)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 30, 2018)

(1) Overview
ASBJ developed a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps:
Step 1: Identify the contract with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) each performance obligation is satisfied

(2) Expected date of adoption
The Company expects to adopt these standard and guidance from the beginning of the year ending March 31, 2022.

(3) Effects of adopting the standard and the guidance
The Company is currently evaluating the effects of adopting these standard and guidance on the consolidated financial statements.

3. United States Dollar Amounts

The accompanying consolidated financial statements are prepared in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and the notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on the basis of ¥106.2 = U.S.$1, the approximate rate of exchange prevailing at March 31, 2018. The inclusion of such U.S. dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with an original maturity of three months or less that are exposed to minor risk of fluctuation in value.

A reconciliation of cash and bank deposits in the consolidated balance sheets to cash and cash equivalents in the consolidated statements of cash flows at March 31, 2018 and 2017 is as follows:

	At March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and bank deposits	¥ 95,252	¥ 82,576	$ 896,908
Bank deposits with maturity of over three months included in cash and bank deposits	(245)	(82)	(2,300)
Cash and cash equivalents	¥ 95,007	¥ 82,494	$ 894,608

5. Inventories

Inventories at March 31, 2018 and 2017 are as follows:

	At March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Merchandise and finished products	¥ 17,127	¥ 16,402	$ 161,275
Work in process	8,686	8,609	81,786
Raw materials and supplies	16,729	14,080	157,524
Other	6,048	4,945	56,945
Total	¥ 48,590	¥ 44,036	$ 457,530

6. Loss on Impairment of Long-Lived Assets

Year ended March 31, 2018

The Group has recorded impairment losses for the following assets.

		2018		
Applications	Location	Type	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Production facilities	Kyoto, Fukuoka Prefecture	Machinery and transport equipment	¥ 722	$ 6,798
	Mexico	Machinery and transport equipment	1,139	10,730
		Construction in progress	985	9,276
		Other	95	891
		Intangible assets	87	818
	United States of America	Buildings and structures	269	2,532
		Machinery and transport equipment	565	5,317
	India	Machinery and transport equipment	34	325
Idle real estate	Omaezaki, Shizuoka Prefecture	Land	33	310

[Background of recognition of impairment losses]

The book value of the above production facilities was written down to the recoverable value and the difference was recorded as an impairment loss since recoverability of amounts invested is not expected due to declining profitability.

The book value of the above idle real estate was written down to the recoverable value and the difference was recorded as an impairment loss since the land is not expected to be used in the future and there is no specific future usage plan.

[Method of grouping assets]

Individual asset items have been grouped by considering management accounting category. Idle assets are grouped by individual property.

[Method of calculating recoverable value]

The recoverable value of the production facilities in Kyoto, Fukuoka Prefecture, Mexico (automotive suspension springs) and the United States of America and idle real estate in Omaezaki, Shizuoka Prefecture was determined as the net realizable value based on reasonable estimates using the real estate appraisal value and others.

The recoverable value of the production facilities in Mexico (precision springs and components) was determined as the value in use, which is calculated by discounting future cash flows at 12.0%.

The recoverable value of the production facilities in India was determined as the value in use, which is calculated by discounting future cash flows at 8.5%.

6. Loss on Impairment of Long-Lived Assets (continued)

Year ended March 31, 2017
The Group has recorded impairment losses for the following assets.

2017				
Location	**Applications**	**Type**	*(Millions of yen)*	
Koto-ku, Tokyo	Assets for sale	Buildings and structures	¥	69
		Land		620
Sendai, Miyagi Prefecture	Business assets (offices)	Land		13
Akita, Akita Prefecture	Business assets (offices)	Land		45
Koriyama, Fukushima Prefecture	Business assets (offices)	Land		92
Hubei, China	Production facilities	Machinery and transport equipment, others		820

[Background of recognition of impairment losses]

The book value of the above assets for sale was written down to the recoverable value and the difference was recorded as an impairment loss since losses are expected from the sale.

The book value of the above business assets was written down to the recoverable value and the difference was recorded as an impairment loss since the market value of land has been declining and future recoverability of amounts invested in the above land is not expected.

The book value of the above production facilities was written down to the recoverable value and the difference was recorded as an impairment loss since recoverability of amounts invested is not expected due to declining profitability.

[Method of calculating recoverable value]

The recoverable value was determined as the net realizable value based on reasonable estimates using the real estate appraisal value and others. The net realizable value for the assets for sale was determined as the contracted amount.

7. Loss on Business of Subsidiaries and Affiliated Companies

No loss on business of subsidiaries and affiliated companies was recognized for the year ended March 31, 2018. Loss on business of a domestic affiliated company (unconsolidated subsidiary) was recognized for the year ended March 31, 2017.

8. Loss on Plant Closing

No loss on plant closing was recognized for the year ended March 31, 2018. The expected loss due to the closure of a plant owned by a foreign affiliated company (unconsolidated subsidiary) was recognized for the year ended March 31, 2017.

9. Loss on Violation of Antimonopoly Laws

The components of loss on violation of antimonopoly laws are as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Surcharge	¥1,076	¥ –	$ 10,133
Lawyers' fees and others	316	576	2,978

On July 26, 2016, the Company and NHK International Corporation, a consolidated subsidiary in the United States, underwent an on-site inspection by the Japan Fair Trade Commission and the United States Department of Justice on suspicion of violating the Antimonopoly Act of Japan and the Antitrust Law of the United States concerning trading of hard disk drive devices.

On February 9, 2018, the Company and NAT Peripheral (H.K.) Co., Ltd., a consolidated subsidiary in China, received a cease and desist order and a surcharge payment order from the Japan Fair Trade Commission for violation of the Antimonopoly Act of Japan in relation to hard disk drive suspension transactions.

The surcharge and other expenses including lawyers' fees to deal with investigations by the Japan Fair Trade Commission and the United States Department of Justice were recorded as other income (expenses) for the years ended March 31, 2018 and 2017.

10. Investment Securities

The aggregate cost, fair value and net unrealized gains or losses of investment securities at March 31, 2018 and 2017 for which market value was readily available are summarized as follows:

Other securities with market value

	At March 31, 2018		
	Cost	**Fair value (carrying amount)**	**Unrealized gains (losses)**
		(Millions of yen)	
Securities whose fair value exceeds their cost:			
Equity securities	¥12,552	¥53,416	¥40,864
Securities whose fair value does not exceed their cost:			
Equity securities	856	618	(238)
Total	¥13,408	¥54,034	¥40,626

	At March 31, 2017		
	Cost	**Fair value (carrying amount)**	**Unrealized gains (losses)**
		(Millions of yen)	
Securities whose fair value exceeds their cost:			
Equity securities	¥12,562	¥56,474	¥43,912
Securities whose fair value does not exceed their cost:			
Equity securities	900	744	(156)
Total	¥13,462	¥57,218	¥43,756

10. Investment Securities (continued)

	At March 31, 2018		
	Cost	Fair value (carrying amount)	Unrealized gains (losses)
	(Thousands of U.S. dollars)		
Securities whose fair value exceeds their cost:			
Equity securities	$118,187	$502,974	$384,787
Securities whose fair value does not exceed their cost:			
Equity securities	8,062	5,819	(2,243)
Total	$126,249	$508,793	$382,544

(Note) Impairment is recognized in case the fair market value decreases by 50% or more compared with the acquisition cost, except if a recovery is expected. If the fair value decreases by 30% or more but less than 50%, the possibility of recovery is assessed. If the Company determines that there is no possibility of recovery, an impairment loss is recognized.

Other securities which were sold in the years ended March 31, 2018 and 2017 were as follows:

	2018		
	Amount of sale	Gain on sale	Loss on sale
	(Millions of yen)		
Equity securities	¥2,465	¥2,392	¥0

	2017		
	Amount of sale	Gain on sale	Loss on sale
	(Millions of yen)		
Equity securities	¥111	¥42	¥11

	2018		
	Amount of sale	Gain on sale	Loss on sale
	(Thousands of U.S. dollars)		
Equity securities	$23,210	$22,522	$0

Impairment loss of ¥831 million ($7,826 thousand) for shares of subsidiaries and affiliated companies was recognized during the year ended March 31, 2018. Impairment loss of ¥1,450 million for shares of subsidiaries and affiliated companies was recognized during the year ended March 31, 2017.

10. Investment Securities (continued)

The aggregate carrying amount of the securities for which market value was not readily available at March 31, 2018 and 2017 is summarized as follows:

	At March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Equity securities of non-listed companies	¥956	¥960	$ 8,999
	¥956	¥960	$ 8,999

11. Retirement Benefits for Employees

The Group has defined benefit plans and defined contribution plans such as corporate pension plans and lump-sum payment plans. The Group has primarily established cash balance plans, in which a hypothetical individual account is established for each participant. In addition to monthly contribution credits, interest credits based on market interest rates are also accumulated in the hypothetical individual accounts. Retirement benefit trusts are established for certain corporate pension plans and lump-sum payment plans.

A part of lump-sum payment plans of the Company has been transferred to defined contribution plans as of April 1, 2016. As a result, gain on revision of retirement benefit plan of ¥1,064 million was recognized in other income (expenses) in the consolidated statement of income for the year ended March 31, 2017.

Certain domestic consolidated subsidiaries apply the simplified method in computing net defined benefit liability and retirement benefit expenses.

In addition to the above, certain domestic consolidated subsidiaries participate in multi-employer pension plans. These plans are accounted for in the same manner as a defined contribution plan when reasonable estimates for pension assets of the participating companies cannot be obtained.

Japan Spring Manufactures Pension Fund, in which the Company’s certain consolidated subsidiaries participated, dissolved on September 25, 2017 with approvals from the Minister of Health, Labour and Welfare. The Company does not expect additional contributions due to this dissolution.

11. Retirement Benefits for Employees (continued)

Defined Benefit Plans

(1) The reconciliation between retirement benefit obligations at the beginning of the year and the end of the year (excluding plans applying the simplified method) is as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligations at beginning of year	¥51,647	¥61,865	$486,320
Service costs	2,579	2,530	24,284
Interest costs	341	291	3,216
Actuarial gains or losses	386	(410)	3,638
Retirement benefits paid	(1,661)	(1,989)	(15,645)
Prior service costs	810	–	7,630
Transfer to defined contribution plans	–	(10,353)	–
Other	549	(287)	5,165
Retirement benefit obligations at end of year	¥54,651	¥51,647	$514,608

(2) The reconciliation between plan assets at the beginning of the year and the end of the year (excluding plans applying simplified method) is as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at beginning of year	¥43,947	¥40,925	$413,818
Expected return on plan assets	1,086	1,071	10,228
Actuarial gains or losses	1,982	2,230	18,664
Contributions from employer	935	895	8,802
Retirement benefits paid	(1,008)	(1,175)	(9,492)
Other	(1)	1	(17)
Plan assets at end of year	¥46,941	¥43,947	$442,003

(3) The reconciliation between defined benefit liability of plans applying the simplified method at the beginning of the year and the end of the year is as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Defined benefit liability at beginning of year	¥ 3,401	¥ 3,276	$ 32,027
Retirement benefit expenses	434	432	4,091
Retirement benefits paid	(189)	(200)	(1,786)
Contribution to the plans	(117)	(107)	(1,101)
Defined benefit liability at end of year	¥ 3,529	¥ 3,401	$ 33,231

11. Retirement Benefits for Employees (continued)

(4) The reconciliation between retirement benefit obligations and plan assets at the end of the year and defined benefit liability and defined benefit asset on the consolidated balance sheet is as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligations	¥41,719	¥40,586	$ 392,836
Plan assets	(46,941)	(43,947)	(442,002)
	(5,222)	(3,361)	(49,166)
Unfunded retirement benefit obligations	16,461	14,462	155,003
Net defined benefit liability (asset) recorded on the consolidated balance sheet	¥11,239	¥11,101	$ 105,837
Net defined benefit liability	¥15,859	¥13,926	$ 149,336
Net defined benefit asset	(4,620)	(2,825)	(43,499)
Net defined benefit liability (asset) recorded on the consolidated balance sheet	¥11,239	¥11,101	$ 105,837

(Note) The amounts in above table include plans applying the simplified method.

(5) The breakdown of retirement benefit expenses for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service costs	¥ 2,579	¥ 2,530	$ 24,284
Interest costs	341	291	3,216
Expected return on plan assets	(1,086)	(1,071)	(10,228)
Amortization of actuarial gains or losses	741	1,145	6,977
Amortization of prior service costs	907	134	8,538
Retirement benefit expenses calculated using the simplified method	434	432	4,091
Retirement benefit expenses on defined benefit plans	¥ 3,916	¥ 3,461	$ 36,878

(6) The components of retirement benefit liability adjustments for the years ended March 31, 2018 and 2017 in other comprehensive income (before income tax effect) are as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service costs	¥ (129)	¥ (133)	$ (1,215)
Actuarial gains or losses	(2,239)	(4,841)	(21,080)
Total	¥ (2,368)	¥ (4,974)	$ (22,295)

11. Retirement Benefits for Employees (continued)

(7) The components of retirement benefit liability adjustments as of March 31, 2018 and 2017 in accumulated other comprehensive income (before income tax effect) are as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service costs	¥ (315)	¥ (186)	$ (2,965)
Unrecognized actuarial gains or losses	1,419	3,658	13,359
Total	¥ 1,104	¥ 3,472	$ 10,394

(8) Plan assets

(i) Breakdown of plan assets

The percentages of various assets to total plan assets by major category as of March 31, 2018 and 2017 are as follows:

	2018	2017
Equity securities	54%	54%
Debt securities	23	23
General accounts	14	15
Other	9	8
Total	100%	100%

(Note) 41% and 40% of the total plan assets are held by retirement benefit trusts, which are established for corporate pension plans, as of March 31, 2018 and 2017, respectively.

(ii) Determination of long-term expected rate of return

The long-term expected rate of return on plan assets is determined based on the current and the expected allocation of plan assets and the current and the long-term expected rates of return from various assets constituting the plan assets.

(9) Actuarial assumptions

The major actuarial assumptions for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Discount rates		
Domestic plans	0.0 – 0.5%	0.0 – 0.5%
Foreign plans	3.0 – 7.7%	2.6 – 7.5%
Long-term expected rates of return on plan assets		
Domestic plans	1.9 – 3.0%	1.9 – 3.0%
Foreign plans	–	–

(Note) The benefit formula method is primarily applied (this does not reflect estimated future increases in points due to salary increases).

11. Retirement Benefits for Employees (continued)

Defined Contribution Plans

The required contributions to defined contribution plans of the Group, including multi-employer pension plans which are accounted for in the same manner as a defined contribution plan, were ¥1,393 million ($13,114 thousand) and ¥1,453 million for the years ended March 31, 2018 and 2017, respectively.

12. Short-Term Borrowings and Long-Term Debt

The components of short-term borrowings, long-term debt, other interest-bearing debt and lease obligations due within one year as of March 31, 2018 and 2017 are as follows:

	At March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term borrowings:			
Loans from banks and other financial institutions with weighted average interest rates of 2.681% and 2.410% at March 31, 2018 and 2017, respectively	¥4,773	¥ 2,215	$ 44,947
Current portion of long-term loans from banks and other financial institutions	8,547	11,781	80,482
Other interest-bearing debt (commercial paper)	4,000	8,000	37,665
Current portion of lease obligations	277	274	2,603
	¥17,597	¥22,270	$165,697

Long-term debt and lease obligations

Long-term debt and lease obligations at March 31, 2018 and 2017 are comprised of the following:

	At March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Bonds:			
U.S. dollar denominated convertible bond-type bonds with subscription rights to shares due 2019	¥10,624	¥11,219	$100,038
Loans from banks and other financial institutions with weighted average interest rates of 0.260% and 0.285% at March 31, 2018 and 2017, respectively	33,886	31,957	319,078
Lease obligations (excluding current portion)	564	520	5,307
	45,074	43,696	424,423
Less: current portion	(8,547)	(11,781)	(80,482)
	¥36,527	¥31,915	$343,941

12. Short-Term Borrowings and Long-Term Debt (continued)

Details of the convertible bond-type bonds with subscription rights to shares are as follows:

Description	U.S. dollar denominated convertible bond-type bonds with subscription rights to shares due 2019
Shares to be issued	Common stock
Issue price of subscription rights to shares	No consideration
Issue price of shares	$10.90
Total issue amount	$100,000 thousand
Total issue amount of shares as a result of exercise of subscription rights to shares	–
Percentage of vested subscription rights to shares	100%
Exercise period of subscription rights to shares	From October 6, 2014 to September 6, 2019
Matters related to substitute payments	Upon exercise of each subscription right to shares, the corresponding bond shall be redeemed as a capital contribution in kind at the price equal to the face value of the bond.

The aggregate annual maturities of long-term debt at March 31, 2018 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2020	¥ 10,254	$ 96,548
2021	8,882	83,636
2022	5,247	49,409
2023 and thereafter	956	9,003
	¥25,339	$238,596

The year-by-year breakdown of lease obligations due as of March 31, 2018 is as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2020	¥234	$2,201
2021	181	1,707
2022	110	1,032
2023 and thereafter	39	367
	¥564	$5,307

13. Asset Retirement Obligations

(1) Summary of relevant asset retirement obligations

Asset retirement obligations include obligations associated with the removal of asbestos used in certain property, plant and equipment required under the "Ordinance on Prevention of Health Impairment due to Asbestos of Japan" at the time of their retirement.

(2) Calculation of the amount of relevant asset retirement obligations

Asset retirement obligations are calculated with the remaining useful lives of the relevant assets as the basis for the estimated period until expenditure and a discount rate of 2.1%.

(3) The changes in asset retirement obligations at March 31, 2018 and 2017 are as follows:

	At March 31,		
	2018	**2017**	**2018**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	¥337	¥305	$3,174
Increase due to change in estimates	262	37	2,468
Accretion expense	0	0	2
Decrease due to settlement of asset retirement obligations	–	(1)	–
Other decrease	–	(4)	–
Balance at end of year	¥599	¥337	$5,644

(4) Change in estimated amount of asset retirement obligations

During the years ended March 31, 2018 and 2017, the Company reviewed the expenditure amount expected to arise at the time of retirement of buildings and structures of consolidated subsidiaries. The Company obtained quotations and other new sources of information and consequently changed the estimated amount of the asset retirement obligations.

An increase of asset retirement obligation of ¥262 million ($2,468 thousand) and ¥37 million due to this change in estimates was added to the balance as of April 1, 2017 and 2016, respectively. The effect of this change in estimates on profit or loss was immaterial.

14. Research and Development Expenses

Research and development expenses included in “Cost of sales” and “Selling, general and administrative expenses” amounted to ¥16,119 million ($151,783 thousand) and ¥16,130 million for the years ended March 31, 2018 and 2017, respectively.

15. Income Taxes

The statutory tax rate in Japan for the years ended March 31, 2018 and 2017 was 30.6%.

At March 31, 2018 and 2017, significant components of deferred tax assets and liabilities are summarized as follows:

	At March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued employees’ bonuses	¥ 3,015	¥ 2,956	$ 28,391
Accrued enterprise taxes	415	461	3,908
Net defined benefit liability	5,666	6,057	53,354
Depreciation	1,683	1,591	15,850
Allowance for doubtful receivables	727	866	6,845
Accrued retirement benefits for directors and corporate auditors	406	405	3,817
Unrealized inter-company profit	623	685	5,867
Accumulated impairment losses	1,682	1,407	15,834
Tax losses carried forward	4,157	3,607	39,141
Loss from securities revaluation	912	788	8,591
Other	3,916	2,300	36,874
Total gross deferred tax assets	23,202	21,123	218,472
Valuation allowance	(7,832)	(6,039)	(73,747)
Total deferred tax assets	¥15,370	¥15,084	$144,725
Deferred tax liabilities:			
Reserved profit of subsidiaries	¥ (750)	¥ (716)	$ (7,062)
Special tax purpose reserve	(2,688)	(2,768)	(25,306)
Unrealized holding gain on securities	(13,177)	(14,075)	(124,080)
Other	(430)	(479)	(4,045)
Total deferred tax liabilities	¥(17,045)	¥(18,038)	$ (160,493)
Net deferred tax assets (liabilities)	¥ (1,675)	¥ (2,954)	$ (15,768)

15. Income Taxes (continued)

At March 31, 2018 and 2017, reconciliations of the statutory tax rate and the effective tax rate were as follows:

	2018	2017
Statutory tax rate	30.6%	30.6%
Different tax rates applied to subsidiaries	(3.1)	(2.5)
Permanent differences	(3.7)	(3.9)
Foreign tax credit	(0.6)	(0.2)
Investment tax credit	(1.6)	(2.0)
Difference in valuation allowances	3.5	1.2
Dividend income from the consolidated subsidiaries	7.0	6.3
Special deduction for research and development expenses	(1.5)	(0.8)
Other	0.1	(0.2)
Effective income tax rate	30.7%	28.5%

16. Distributions of Retained Earnings

Under the Companies Act of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period or by resolution of the Board of Directors if certain conditions are met. The accounts for that period do not, therefore, reflect such distributions.

17. Guarantees and Contingent Liabilities

As of March 31, 2018 and 2017, the Group had the following guarantees:

	At March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Borrowings from financial institutions by unconsolidated subsidiaries and affiliated subsidiaries, affiliated companies and employees	¥ 2,349	¥ 3,338	$ 22,119

On July 26, 2016, the Company and NHK International Corporation, a consolidated subsidiary in the United States, underwent an on-site inspection by the Japan Fair Trade Commission and the United States Department of Justice on suspicion of violating the Antimonopoly Act of Japan and the Antitrust Law of the United States concerning trading of hard disk drive devices.

On February 9, 2018, the Company and NAT Peripheral (H.K.) Co., Ltd., a consolidated subsidiary in China, received a cease and desist order and a surcharge payment order from the Japan Fair Trade Commission for violation of the Antimonopoly Act of Japan in relation to hard disk drive suspension transactions. The surcharge and other expenses including lawyers' fees to deal with investigations of ¥1,392 million ($13,111 thousand) were recorded as other income (expenses) for the year ended March 31, 2018.

The investigation by the United States Department of Justice is on-going. The result may affect the financial position and the result of operations but the effect is currently unknown. The Company and NHK International Corporation will continue cooperating fully with the United States Department of Justice in the investigations.

18. Leases

Finance lease transactions are depreciated by the straight-line method using the lease term as the useful life and a residual value of zero.

Non-cancellable operating lease commitments are as follows:

	At March 31,		
	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Due within one year	¥213	¥202	$2,003
Due over one year	300	381	2,823
Total	¥513	¥583	$4,826

19. Derivative Financial Instruments

In the normal course of business, the Group utilizes derivative financial instruments, including forward foreign exchange contracts, currency swap contracts, foreign currency options and foreign currency swap contracts, to manage its exposure to adverse fluctuations in foreign exchange rates relating to receivables, payables and short/long-term debt denominated in foreign currencies. In addition, the Group uses interest-rate swap contracts to limit its exposure to losses in relation to short-term investments and debt with floating interest rates, resulting from adverse fluctuations in interest rates. The Group does not use derivatives for speculative or trading purposes.

[Derivatives not meeting the criteria for hedge accounting]

The contract amount (notional principal amount), estimated fair value of, and unrealized gain on, the outstanding contracts at March 31, 2018 are summarized as follows:

	At March 31, 2018			
	Contract amount (notional principal amount)			
	Total	Over one year	Fair value	Unrealized gain
	(Millions of yen)			
Currency swap contracts:				
To receive Mexican peso/ to pay Japanese yen	¥ 777	¥ 777	¥ 23	¥ 23

	At March 31, 2018			
	Contract amount (notional principal amount)			
	Total	Over one year	Fair value	Unrealized gain
	(Thousands of U.S. dollars)			
Currency swap contracts:				
To receive Mexican peso/ to pay Japanese yen	$ 7,315	$ 7,315	$ 212	$ 212

(Note 1) Fair value is measured based on quotes and others provided by financial institutions and others.

(Note 2) The above currency swap contracts are accounted for as derivatives meeting the criteria for hedge accounting with loans to consolidated subsidiaries as a hedged item on the non-consolidated financial statements of the Company. The above currency swap contracts became subject to the disclosure since loans to consolidated subsidiaries were eliminated on the consolidated financial statements and the hedge accounting is no longer to be applied.

There were no outstanding derivative transactions not meeting the criteria for hedge accounting at March 31, 2017.

19. Derivative Financial Instruments (continued)

[Derivatives meeting the criteria for hedge accounting]

The contract amount (notional principal amount) and estimated fair value of the outstanding contracts at March 31, 2018 and 2017 are summarized as follows:

	At March 31, 2018			
		Contract amount (notional principal amount)		
	Hedged items	**Total**	**Over one year**	**Fair value**
		(Millions of yen)		
Interest rate swap contracts:				
To receive floating/ to pay fixed	Long-term debt	¥4,300	¥2,310	(Note 2)

	At March 31, 2017			
		Contract amount (notional principal amount)		
	Hedged items	**Total**	**Over one year**	**Fair value**
		(Millions of yen)		
Foreign exchange forward contracts:				
Sell U.S. dollar	Receivables/ payables denominated in foreign currencies	¥1,121	–	¥1,132
Interest rate swap contracts:				
To receive floating/ to pay fixed	Long-term debt	7,240	4,300	(Note 2)
Interest rate and currency swap contracts:				
To receive Japanese yen floating/ to pay U.S. dollar fixed	Long-term debt	4,546	–	(Note 2)

	At March 31, 2018			
		Contract amount (notional principal amount)		
	Hedged items	**Total**	**Over one year**	**Fair value**
		(Thousands of U.S. dollars)		
Interest rate swap contracts:				
To receive floating/ to pay fixed	Long-term debt	$40,490	$21,751	(Note 2)

19. Derivative Financial Instruments (continued)

(Note 1) Fair value is measured based on quotes and others provided by financial institutions and others.

(Note 2) The fair values of interest rate swap contracts and interest rate and currency swap contracts meeting certain conditions for hedge accounting are included in that of the corresponding long-term debt because interest rate swap contracts and interest rate and currency swap contracts are treated together with the long-term debt as the hedged item.

20. Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group invests only in short-term bank deposits and obtains financing through borrowings from banks or the issuance of bonds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described herein.

(2) Type of financial instruments and related risk

Receivables such as notes and accounts receivable, trade are exposed to customer credit risk. Receivables denominated in foreign currencies arising from global business transactions are exposed to foreign currency exchange fluctuation risk; however, the risk associated with principal export transactions is constantly maintained within the limits established based on historical experience and the exposures are hedged by forward exchange rate contracts. Equity investments are exposed to the risk of market price fluctuations; nevertheless, they mainly consist of equity of companies with which the Company has business relationships, and their fair values are evaluated quarterly and reported to the Board of Managing Directors. Payment terms of payables, such as notes and accounts payable, trade are mostly less than one year. Although payables in foreign currencies are exposed to foreign currency exchange fluctuation risk, those risks are constantly netted against the balance of receivables denominated in the same foreign currency. Borrowings and commercial papers are used to raise necessary funds for working capital and capital expenditures. Although some borrowings with floating interest rates are exposed to interest rate fluctuation risk, such exposure is hedged by using derivatives (interest rate swaps).

(3) Risk management for financial instruments

1) Monitoring of credit risk (the risk that customer or counterparties may default)

The Group monitors payment terms and the balances of receivables by individual customer in accordance with internal rules on management of accounts receivable and has a system to periodically assess the credit risk of the customers.

2) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Group mitigates foreign currency exchange fluctuation risks in connection with receivables and short/long-term debt denominated in foreign currencies by using exchange rate contracts for a certain proportion of such receivables and debt. In addition, the Company uses interest rate swap contracts for long-term debt to fix interest payments on borrowings with floating interest rates; therefore, there is no interest rate fluctuation risk exposure for interest payments on long-term debt.

20. Financial Instruments (continued)

(3) Risk management for financial instruments (continued)

3) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Group manages liquidity risk by timely making projection and revision of cash flow plans by the department in charge of finance based on reports from each relevant department.

(4) Supplementary explanation of estimated fair value of financial instruments

Not applicable

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2018 and 2017 are as follows:

20. Financial Instruments (continued)

2. Fair values of financial instruments (continued)

	At March 31, 2018		
	Carrying amount	Fair value	Unrealized gain (loss)
		(Millions of yen)	
(1) Cash and bank deposits	¥ 95,252	¥ 95,252	¥ –
(2) Notes and accounts receivable, trade	146,781	146,781	–
(3) Investment securities			
Other securities	54,034	54,034	–
(4) Long-term loans receivable	8,720	8,859	139
Total assets	¥ 304,787	¥ 304,926	¥ 139
(1) Notes and accounts payable, trade	¥ 131,145	¥ 131,145	¥ –
(2) Short-term borrowings	4,773	4,773	–
(3) Current portion of long-term debt	8,547	8,547	–
(4) Accrued income taxes	6,074	6,074	–
(5) Notes payable-facilities	3,715	3,715	–
(6) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	10,624	11,364	740
(7) Long-term debt	25,339	25,285	(54)
(8) Long-term lease obligations	564	562	(2)
Total liabilities	¥ 190,781	¥ 191,465	¥ 684
Derivative financial instruments (*1)	¥ –	¥ –	¥ –

	At March 31, 2017		
	Carrying amount	Fair value	Unrealized gain (loss)
		(Millions of yen)	
(1) Cash and bank deposits	¥ 82,576	¥ 82,576	¥ –
(2) Notes and accounts receivable, trade	140,343	140,343	–
(3) Investment securities			
Other securities	57,218	57,218	–
(4) Long-term loans receivable	10,383	10,634	251
Total assets	¥ 290,520	¥ 290,771	¥ 251
(1) Notes and accounts payable, trade	¥ 115,904	¥ 115,904	¥ –
(2) Short-term borrowings	2,215	2,215	–
(3) Current portion of long-term debt	11,781	11,781	–
(4) Accrued income taxes	7,245	7,245	–
(5) Notes payable-facilities	2,904	2,904	–
(6) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	11,219	12,715	1,496
(7) Long-term debt	20,176	20,262	86
(8) Long-term lease obligations	520	518	(2)
Total liabilities	¥ 171,964	¥ 173,544	¥ 1,580
Derivative financial instruments (*1)	¥ 27	¥ 27	¥ –

20. Financial Instruments (continued)

2. Fair values of financial instruments (continued)

	At March 31, 2018		
	Carrying amount	Fair value	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
(1) Cash and bank deposits	$ 896,908	$ 896,908	$ –
(2) Notes and accounts receivable, trade	1,382,123	1,382,123	–
(3) Investment securities			
Other securities	508,793	508,793	–
(4) Long-term loans receivable	82,108	83,419	1,311
Total assets	$2,869,932	$2,871,243	$ 1,311
(1) Notes and accounts payable, trade	$1,234,885	$1,234,885	$ –
(2) Short-term borrowings	44,947	44,947	–
(3) Current portion of long-term debt	80,482	80,482	–
(4) Accrued income taxes	57,197	57,197	–
(5) Notes payable-facilities	34,981	34,981	–
(6) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	100,038	106,999	6,961
(7) Long-term debt	238,596	238,089	(507)
(8) Long-term lease obligations	5,307	5,289	(18)
Total liabilities	$1,796,433	$1,802,869	$ 6,436
Derivative financial instruments (*1)	$ –	$ –	$ –

(*1) Receivables and payables under derivative transactions are presented on a net basis. Payables are presented in parentheses.

(Note 1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

(1) Cash and bank deposits and (2) Notes and accounts receivable, trade

These assets are recorded using book values because fair values approximate book values due to their short-term maturities.

(3) Investment securities

The fair values of equity securities are determined using the quoted price at the stock exchange, and those of debt securities are determined using the quoted price obtained from the financial institutions.

Please see Note 10 “Investment Securities” for information on securities by holding purpose.

(4) Long-term loans receivable

The fair values of long-term loans receivable are determined by the present value, calculated based on the estimated amount of principal and interest receivable, reflecting the collectability and discounted using the interest rate of Japanese government bonds with the corresponding maturities.

20. Financial Instruments (continued)

2. Fair values of financial instruments (continued)

Liabilities

(1) Notes and accounts payable, trade, (2) Short-term borrowings, (3) Current portion of long-term debt, (4) Accrued income taxes, and (5) Note payable-facilities

These payables are recorded using book values because fair values approximate book values due to their short-term maturities.

(6) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares

The fair value of U.S. dollar denominated convertible bond-type bonds with subscription rights to shares is determined using the quoted price obtained from the financial institutions.

(7) Long-term debt and (8) Long-term lease obligations

The fair values of long-term debt and lease obligations are determined by discounting the aggregated values of the principal and interest using an assumed interest rate applied in case the same type of loans or leases should be newly made. Long-term debt with floating interest rates is hedged by interest rate swap contracts meeting certain conditions for hedge accounting, and the fair values are determined by discounting the aggregated values of the principal and interest accounted for together with the related interest rate swap contracts using the reasonably estimated interest rate to be applied when the same types of loans are newly made.

Derivative financial instruments:

Please see the Note 19 “Derivative Financial Instruments.”

(Note 2) Financial instruments for which it is extremely difficult to determine the fair value

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Equity investments of unlisted subsidiaries and affiliated companies	¥9,689	¥13,908	$91,231
Other unlisted equity securities	956	960	8,999

The items above are not included in “(3) Investment securities” because there is no market price and it is very difficult to determine their fair values.

20. Financial Instruments (continued)

2. Fair values of financial instruments (continued)

(Note 3) Redemption schedule of monetary assets and investment securities with contractual maturities as of March 31, 2018

	(Millions of yen)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and bank deposits	¥ 95,252	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	146,781	–	–	–
Long-term loans receivable	–	8,601	78	41
Total	¥242,033	¥ 8,601	¥ 78	¥ 41

	(Thousands of U.S. dollars)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and bank deposits	$ 896,908	$ –	$ –	$ –
Notes and accounts receivable, trade	1,382,123	–	–	–
Long-term loans receivable	–	80,986	734	388
Total	$2,279,031	$ 80,986	$ 734	$ 388

(Note 4) Redemption schedule of short-term borrowings, bonds, long-term debt and long-term lease obligations as of March 31, 2018

	(Millions of yen)					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term borrowings	¥ 4,773	¥ –	¥ –	¥ –	¥ –	¥ –
U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	–	10,624	–	–	–	–
Long-term debt	8,547	10,254	8,882	5,247	956	–
Long-term lease obligations	–	234	181	110	39	–
Total	¥ 13,320	¥ 21,112	¥ 9,063	¥ 5,357	¥ 995	¥ –

20. Financial Instruments (continued)

2. Fair values of financial instruments (continued)

	(Thousands of U.S. dollars)					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term borrowings	$ 44,947	$ –	$ –	$ –	$ –	$ –
U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	–	100,038	–	–	–	–
Long-term debt	80,482	96,548	83,636	49,409	9,003	–
Long-term lease obligations	–	2,202	1,706	1,032	367	–
Total	$125,429	$198,788	$ 85,342	$ 50,441	$ 9,370	$ –

21. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017	2018
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrealized holding (loss) gain on securities:			
Amount arising during year	¥ (744)	¥ 12,495	$ (7,008)
Reclassification adjustments	(2,392)	(31)	(22,522)
Amount before the adjustment of tax effect	(3,136)	12,464	(29,530)
Tax effect	905	(3,789)	8,521
Unrealized holding (loss) gain on securities	(2,231)	8,675	(21,009)
Translation adjustments:			
Amount arising during year	1,359	(3,299)	12,798
Retirement benefit liability adjustments:			
Amount arising during year	1,454	2,645	13,686
Reclassification adjustments	914	2,329	8,609
Amount before the adjustment of tax effect	2,368	4,974	22,295
Tax effect	(675)	(1,517)	(6,358)
Retirement benefit liability adjustments	1,693	3,457	15,937
Share of other comprehensive loss of affiliated companies accounted for by the equity method:			
Amount arising during year	(231)	(31)	(2,171)
Total other comprehensive income	¥ 590	¥ 8,802	$ 5,555

22. Segment Information

(1) Outline of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about allocation of management resources and to assess performance.

The Company operates principally in four industrial segments: automotive suspension springs; automotive seating; precision springs and components; and industrial machinery and equipment, and others based on manufacturing divisions of the Company. The main products of each segment are as follows:

Automotive suspension springs:	Coil springs, stabilizer bars, leaf springs, torsion bars, stabilizer links, bellows, stabilinker and others
Automotive seating:	Seats, mechanical seating components, trim parts and others
Precision springs and components:	HDD suspensions and mechanical components, wire springs, flat springs, motor cores, LCD/semiconductor testing probe units, fastener (screw), precision machine components and others
Industrial machinery and equipment, and others:	Brazed products, ceramic products, spring mechanisms, pipe support systems, automatic parking systems, polyurethane products, metal-based printed wiring boards, security products, lighting equipment, golf club shafts and others

(2) Calculation method of net sales, income, assets and other items by reportable segment

The accounting treatments for reportable segments are consistent with those described in Note 1. Summary of Significant Accounting Policies. Segment income is based on operating profit.

22. Segment Information (continued)

(3) Net sales, income or loss, assets and other items by reportable segment

	Year ended March 31, 2018						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Adjustments	Consolidated total
				(Millions of yen)			
Sales:							
Sales to external customers	¥124,268	¥295,711	¥147,874	¥ 91,878	¥659,731	¥ –	¥ 659,731
Inter-segment sales	1,783	34	1,848	9,581	13,246	(13,246)	–
Net sales	¥126,051	¥295,745	¥149,722	¥101,459	¥672,977	¥ (13,246)	¥ 659,731
Segment income	¥ 9,627	¥ 9,458	¥ 10,856	¥ 5,600	¥ 35,541	¥ –	¥ 35,541
Segment assets	¥106,044	¥140,384	¥122,041	¥ 84,744	¥453,213	¥119,366	¥ 572,579
Other items:							
Depreciation and amortization	¥ 6,003	¥ 5,359	¥ 8,977	¥ 2,471	¥ 22,810	¥ 1,331	¥ 24,141
Investments in affiliated companies accounted for by the equity-method	1,580	1,936	2,975	191	6,682	–	6,682
Increase in property, plant and equipment and intangible and other assets	7,491	7,082	12,801	5,019	32,393	1,617	34,010

	Year ended March 31, 2017						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Adjustments	Consolidated total
				(Millions of yen)			
Sales:							
Sales to external customers	¥ 119,542	¥ 285,925	¥ 139,087	¥ 82,396	¥ 626,950	¥ –	¥ 626,950
Inter-segment sales	1,740	41	1,641	8,811	12,233	(12,233)	–
Net sales	¥ 121,282	¥ 285,966	¥ 140,728	¥ 91,207	¥ 639,183	¥ (12,233)	¥ 626,950
Segment income	¥ 11,533	¥ 13,985	¥ 9,606	¥ 5,490	¥ 40,614	¥ –	¥ 40,614
Segment assets	¥ 102,352	¥ 135,122	¥ 117,091	¥ 82,463	¥ 437,028	¥ 104,713	¥ 541,741
Other items:							
Depreciation and amortization	¥ 5,368	¥ 5,668	¥ 8,248	¥ 2,296	¥ 21,580	¥ 1,558	¥ 23,138
Investments in affiliated companies accounted for by the equity-method	1,691	1,592	3,084	101	6,468	–	6,468
Increase in property, plant and equipment and intangible and other assets	5,490	5,074	10,311	3,744	24,619	1,019	25,638

22. Segment Information (continued)

(3) Net sales, income or loss, assets and other items by reportable segment (continued)

	Year ended March 31, 2018						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Adjustments	Consolidated total
	(Thousands of U.S. dollars)						
Sales:							
Sales to external customers	$1,170,129	$2,784,470	$1,392,412	$ 865,143	$6,212,154	$ –	$6,212,154
Inter-segment sales	16,793	326	17,401	90,212	124,732	(124,732)	–
Net sales	$1,186,922	$2,784,796	$1,409,813	$ 955,355	$6,336,886	$ (124,732)	$6,212,154
Segment income	$ 90,650	$ 89,056	$ 102,220	$ 52,737	$ 334,663	$ –	$ 334,663
Segment assets	$ 998,533	$1,321,885	$1,149,158	$ 797,962	$4,267,538	$1,123,981	$5,391,519
Other items:							
Depreciation and amortization	$ 56,530	$ 50,460	$ 84,524	$ 23,267	$ 214,781	$ 12,538	$ 227,319
Investments in affiliated companies accounted for by the equity-method	14,875	18,228	28,019	1,796	62,918	–	62,918
Increase in property, plant and equipment and intangible and other assets	70,534	66,685	120,543	47,258	305,020	15,227	320,247

(Note 1) Adjustments for segment assets of ¥119,366 million ($1,123,981 thousand) and ¥104,713 million at March 31, 2018 and 2017, respectively, include corporate assets not allocated to each reportable segment. Corporate assets consist mainly of cash and bank deposits that are not attributable to any reportable segment.

(Note 2) Adjustments for depreciation and amortization relate to the head office building.

(Note 3) Adjustments for increase in property, plant and equipment and intangible and other assets of ¥1,617 million ($15,227 thousand) and ¥1,019 million at March 31, 2018 and 2017, respectively, relate to increased corporate assets that are not attributable to any reportable segment.

22. Segment Information (continued)

(4) Information by geographic area

	As of/ Year ended March 31, 2018				
	Japan	North America	Asia	Other	Total
			(Millions of yen)		
Sales	¥363,348	¥108,800	¥184,119	¥3,464	¥659,731
Property, plant and equipment (excluding leased assets)	96,384	28,209	30,916	–	155,509

	As of/ Year ended March 31, 2017				
	Japan	North America	Asia	Other	Total
			(Millions of yen)		
Sales	¥343,622	¥112,059	¥167,824	¥3,445	¥626,950
Property, plant and equipment (excluding leased assets)	85,959	25,827	32,032	–	143,818

	As of/ Year ended March 31, 2018				
	Japan	North America	Asia	Other	Total
			(Thousands of U.S. dollars)		
Sales	$3,421,356	$1,024,484	$1,733,703	$32,611	$6,212,154
Property, plant and equipment (excluding leased assets)	907,566	265,621	291,115	–	1,464,302

(5) Information on major customers

For the year ended March 31, 2018, information on major customers is omitted since there is no external customer with a sales amount of 10% or more of the Group’s net sales.

Year ended March 31, 2017		
Name of customer	Net sales	Reportable segments
	(Millions of yen)	
Fuji Heavy Industries Ltd.	¥67,183	Automotive suspension springs; automotive seating; precision springs and components; and industrial machinery and equipment, and others

(Note) Fuji Heavy Industries Ltd. changed its name to SUBARU CORPORATION on April 1, 2017.

22. Segment Information (continued)

(6) Information on impairment loss of long-lived assets by reportable segment

	Year ended March 31, 2018						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	(Millions of yen)						
Impairment loss	¥2,520	¥868	¥541	¥–	¥3,929	¥–	¥3,929

	Year ended March 31, 2017						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	(Millions of yen)						
Impairment loss	¥–	¥820	¥–	¥839	¥1,659	¥–	¥1,659

	Year ended March 31, 2018						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	(Thousands of U.S. dollars)						
Impairment loss	$23,730	$8,174	$5,093	$–	$36,997	$–	$36,997

22. Segment Information (continued)

(7) Information on amortization and unamortized balance of goodwill by reportable segment

	As of/ Year ended March 31, 2018						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
				(Millions of yen)			
Amortization	¥71	¥1	¥0	¥–	¥72	¥–	¥72
Unamortized balance	0	–	–	–	0	–	0

	As of/ Year ended March 31, 2017						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
				(Millions of yen)			
Amortization	¥71	¥2	¥0	¥58	¥131	¥–	¥131
Unamortized balance	72	1	0	–	73	–	73

	As of/ Year ended March 31, 2018						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
				(Thousands of U.S. dollars)			
Amortization	$672	$7	$2	$–	$681	$–	$681
Unamortized balance	8	–	–	–	8	–	8

23. Related Party Transactions

Year ended March 31, 2018

Transactions between the Company and related parties:

Type:	Affiliate
Name:	Faurecia-NHK Co., Ltd.
Address:	Naka-ku, Yokohama
Capital:	¥400 million ($3,766 thousand)
Business area:	Automotive Seating Division
Proportion of voting rights owned:	50.0%
Related party transactions:	Customer of the Company One concurrent director
Details of transactions:	Purchase of products from the Company
Amount of transactions:	¥10,597 million ($99,781 thousand)
Accounts recorded:	Account receivable
Balance at end of year:	¥3,659 million ($34,455 thousand)

Type:	Subsidiary
Name:	NHK Spring Hungary KFT.
Address:	Tata, Komárom-Esztergom megye, Hungary
Capital:	HUF 6,648 million
Business area:	Automotive suspension springs
Proportion of voting rights owned:	95.4% (Direct) 4.6% (Indirect)
Related party transactions:	Technical support
Details of transactions:	Lending of funds
Amount of transactions:	-
Accounts recorded:	Long-term loans receivable
Balance at end of year:	¥5,382 million ($50,674 thousand)

Type:	Subsidiary	
Name:	NHK Seating Mizushima Co., Ltd.	
Address:	Kurashiki, Okayama Prefecture	
Capital:	¥500 million ($4,708 thousand)	
Business area:	Automotive Seating Division	
Proportion of voting rights owned:	100.0%	
Related party transactions:	Contract processing	
Details of transactions:	Sales of products to the Company	Purchase of products from the Company
Amount of transactions:	¥5,112 million ($48,131 thousand)	¥4,285 million ($40,348 thousand)
Accounts recorded:	Accounts payable	Other receivable
Balance at end of year:	¥4,215 million ($39,693 thousand)	¥3,160 million ($29,757 thousand)

23. Related Party Transactions (continued)

Year ended March 31, 2017

Transactions between the Company and related parties:

Type:	Affiliate
Name:	Faurecia-NHK Co., Ltd.
Address:	Naka-ku, Yokohama
Capital:	¥400 million
Business area:	Automotive Seating Division
Proportion of voting rights owned:	50.0%
Related party transactions:	Customer of the Company One concurrent director
Details of transactions:	Purchase of products from the Company
Amount of transactions:	¥8,988 million
Accounts recorded:	Account receivable
Balance at end of year:	¥4,586 million

24. Subsequent Event

[Distribution of retained earnings]

The following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, was approved by the shareholders of the Company at the Annual General Meeting of Shareholders held on June 27, 2018:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends of ¥12.0 ($0.11) per share	¥ 2,845	$ 26,790