NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
March 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying consolidated financial statements of Oki Electric Industry Co., Ltd. (the "Company") and consolidated subsidiaries (the "Group") have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

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

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in significant affiliates are accounted for by the equity method. Other investments in affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written them down to reflect the impairment.

(c) Foreign currency transactions

(1) The Company translates the revenue and expense accounts of the overseas consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the shareholder's equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of the shareholder's equity are translated at their historical exchange rates. Differences arising from translation where two exchange rates have been used are presented under translation adjustments as a component of net assets.

(2) Current and non-current monetary assets and liabilities denominated in foreign currencies of the Company and domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates.

All revenues and expenses are translated at the average rate for the month prior to the transaction.

(d) Cash equivalents

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

(e) Securities

Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, net of the applicable income taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain (loss) on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

(f) Inventories

Inventories are principally stated at cost determined by the following methods. Overseas subsidiaries adopt the lower of cost or market method.

Finished goods—Moving average method
Work in process—Specific identification method
Raw materials and supplies—Moving average method

(g) Property, plant and equipment, and depreciation (Except for assets leased)

Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is principally computed by the declining-balance method over the estimated useful lives of the respective assets. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets and amortization (Except for assets leased)

Intangible assets, including capitalized computer software costs, are amortized by the straight-line method over their respective estimated useful lives.

(i) Leases

Depreciation of assets on finance leases which do not transfer ownership of the leased assets to the lessee is calculated by the straight-line method over the lease period with their residual value of zero, except the leases started on or before March 31, 2008. The leases which were started on or before March 31, 2008 are principally accounted for as operating leases.

(j) Retirement benefits

1) Attributing expected retirement benefits to a period
When calculating retirement benefit obligations, the Company applies the benefit formula basis to attribute expected retirement benefits to the period until the end of the fiscal year.

2) Accounting for actuarial gains and losses and prior service costs
Prior service costs are amortized by the straight-line method over a set number of years (11 to 13 years) within the average remaining years of service of employees. Actuarial gains and losses are amortized by the straight line method over a set number of years (11 to 13 years) within the average remaining years of service of employees at the time of their accrual in each fiscal year. Amortization of such gains and losses is deemed to be effective from the year after the one in which they arise.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the difference between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(l) Hedge accounting
Forward foreign exchange contracts and currency swap contracts are accounted for by hedge accounting which requires that unrealized gains or losses be deferred as assets or liabilities. Forward foreign exchange contracts and currency swap contracts which meet certain criteria are accounted for by the allocation method which is utilized to hedge against risks arising from fluctuation in foreign currency exchange rates. Interest-rate swaps which meet the required criteria are accounted for by a special method (as stipulated in the accounting standard for financial instruments) as if the interest rates applied to the interest-rate swaps had originally applied to the underlying borrowings. Interest-rate swaps contracts are utilized to hedge market risks which may arise in the future with respect to long-term loans with variable interest rates.

The Group has developed hedging policies to control various aspects of derivatives transactions, including levels of authorization and transaction volume. Based on these policies, the Group hedges risks arising from fluctuation in foreign currency exchange rates and interest rates. During the period from the inception of a hedge position to the assessment of its effectiveness, the Group reviews the effectiveness of all its hedging policies in order to monitor and control the cumulative cash flows and to respond to any changes in the market.

(m) Changes in methods of accounting
Following the revision to the Corporate Tax Act, some subsidiaries in Japan have applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the year ended March 31, 2017, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of these changes on the consolidated financial statements is immaterial.

2. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥112 = U.S.$1.00, the approximate exchange rate prevailing at March 31, 2017. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. SECURITIES

Securities at March 31, 2017 and 2016 were summarized as follows. Securities for which it is extremely difficult to reasonably measure its fair value are not included in the table below.

Other securities

	Millions of yen						Thousands of U.S. dollars		
	2017			2016			**2017**		
	Amount recorded in balance sheet	Acquisition costs	Difference	Amount recorded in balance sheet	Acquisition costs	Difference	Amount recorded in balance sheet	Acquisition costs	Difference
Other securities whose fair value recorded in balance sheet exceeds their acquisition costs:									
Equity securities	**¥ 19,867**	**¥ 11,165**	**¥ 8,702**	¥ 18,065	¥ 10,930	¥ 7,135	**$ 177,383**	**$ 99,687**	**$ 77,696**
Subtotal	**19,867**	**11,165**	**8,702**	18,065	10,930	7,135	**177,383**	**99,687**	**77,696**
Other securities whose fair value recorded in balance sheet does not exceed their acquisition costs:									
Equity securities	**18,816**	**19,962**	**(1,145)**	1,440	1,965	(525)	**168,000**	**178,232**	**(10,223)**
Other	**—**	**—**	**—**	5	5	—	**—**	**—**	**—**
Subtotal	**18,816**	**19,967**	**(1,145)**	1,445	1,970	(525)	**168,000**	**178,232**	**(10,223)**
Total	**¥ 38,684**	**¥ 31,128**	**¥ 7,556**	¥ 19,511	¥ 12,900	¥ 6,610	**$ 345,392**	**$ 277,928**	**$ 67,464**

4. INVENTORIES

Inventories at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Finished goods	**¥ 20,423**	¥ 36,599	**$ 182,348**
Work in process	**19,656**	19,496	**175,500**
Raw materials and supplies	**22,502**	23,373	**200,910**
Total	**¥ 62,582**	¥ 79,469	**$ 558,767**

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Investments stated:			
By the equity method	**¥ 5,486**	¥ 5,515	**$ 48,982**
At cost or less	**0**	594	**0**
Advances	**—**	72	**—**
Total	**¥ 5,486**	¥ 6,182	**$ 48,982**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans, principally from banks, at weighted-average interest rates of 1.6% and 1.2% at March 31, 2017 and 2016, respectively:			
Secured	**¥ 3,500**	¥ 10,000	**$ 31,250**
Unsecured	**34,486**	40,597	**307,910**
Total	**¥ 37,986**	¥ 50,597	**$ 339,160**

Long-term debts at March 31, 2017 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans from banks, insurance companies and government agencies, due through 2020:			
Unsecured	**¥ 49,025**	¥ 71,487	**$ 437,723**
Less: Current portion	**(18,895)**	(22,095)	**(168,705)**
Total	**¥ 30,129**	¥ 49,391	**$ 269,008**

At March 31, 2017, short-term borrowings of ¥3,500 million ($31,250 thousand) were collateralized by investments in securities amounting to ¥14,957 million ($133,544 thousand).

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness be given at the request of the lending bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset the obligations with any cash deposited with the bank.

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 18,895	$ 168,705
2019	19,102	170,553
2020	10,325	92,187
2021	701	6,258
Total	¥ 49,025	$ 437,723

The Group has access to substantial sources of funds at numerous banks worldwide. Total unused credit available to the Group at March 31, 2017 was ¥29,417 million ($262,651 thousand).

7. FINANCIAL INSTRUMENTS

(a) Summary of financial instruments

The Group mainly uses short-term deposits and highly safe marketable securities for fund management, and raises its funds primarily through borrowings from financial institutions and issuance of corporate bonds.

The Group strives to mitigate credit risks associated with notes and accounts receivable from customers, which are operating receivables, by carrying out customer credit investigations in accordance with regulations for the management of accounts receivable of individual companies.

For borrowings, the Group raises short-term funds mainly for working capital and long-term funds for working capital and capital investment. For borrowings exposed to the interest rate risk, the Group applies derivative instruments (interest rate swap transactions) to hedge its risk.

The Group executes and manages derivative transactions in accordance with Oki Group's policy.

(b) Disclosure about fair value of financial instruments

The fair values of financial instruments at March 31, 2017 and 2016 were summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2017			2016			**2017**		
	Amount recorded in balance sheet	Fair value	Difference	Amount recorded in balance sheet	Fair value	Difference	Amount recorded in balance sheet	Fair value	Difference
(1) Cash on hand and in banks	**¥ 54,164**	**¥ 54,164**	**¥ —**	¥ 47,829	¥ 47,829	¥ —	**$ 483,607**	**$ 483,607**	**$ —**
(2) Notes and accounts receivable (*1)	**101,572**			135,910			**906,892**		
Allowance for doubtful receivables (*2)	**(6,580)**			(8,314)			**(58,750)**		
	94,992	**94,992**	**—**	127,596	127,596	—	**848,142**	**848,142**	**—**
(3) Investments in securities (*3)	**42,302**	**41,829**	**(472)**	22,992	22,481	(510)	**377,696**	**373,473**	**(4,214)**
(4) Long-term trade receivables	**18,659**			510			**166,598**		
Allowance for doubtful receivables (*2)	**(11,747)**			(488)			**(104,883)**		
	6,911	**6,911**	**—**	21	21	—	**61,705**	**61,705**	**—**
Total assets	**198,370**	**197,897**	**(472)**	198,440	197,929	(510)	**1,771,160**	**1,766,937**	**(4,214)**
(1) Notes and accounts payable (*4)	**58,685**	**58,685**	**—**	65,477	65,477	—	**523,973**	**523,973**	**—**
(2) Short-term borrowings	**37,986**	**37,986**	**—**	50,597	50,597	—	**339,160**	**339,160**	**—**
(3) Other accrued expenses	**29,499**	**29,499**	**—**	33,265	33,265	—	**263,383**	**263,383**	**—**
(4) Long-term debt (*5)	**49,025**	**49,454**	**428**	71,487	72,265	777	**437,723**	**441,553**	**3,821**
Total liabilities	**175,196**	**175,625**	**428**	220,827	221,605	777	**1,564,250**	**1,568,080**	**3,821**
Derivative transactions (*6)	**¥ (90)**	**¥ (90)**	**¥ —**	¥ 3	¥ 3	¥ —	**$ (803)**	**$ (803)**	**$ —**

*1 The amounts of notes and accounts receivable above excludes insignificant other receivables included in "Notes and accounts receivable" in the consolidated balance sheets.

*2 It comprises the allowance for doubtful receivables in respect to "Notes and accounts receivable," and "Long-term trade receivables."

*3 Investments in securities are included in "Investments in and advances to unconsolidated subsidiaries and affiliates" and "Other investments in securities" in the consolidated balance sheets.

*4 The amounts of notes and accounts payable above excludes insignificant other payables included in "Notes and accounts payable" in the consolidated balance sheets.

*5 Long-term debt that will be reimbursed within one year is classified as "Current portion of long-term debt" in the consolidated balance sheets.
*6 The amount of the receivables and payables derived from derivative transactions is presented on a net basis and the amounts in parentheses are liabilities as the result of netting.

Notes:
1. Fair value measurements of financial instruments and investment in securities and derivative transaction
Assets
(1) Cash on hand and in banks, and (2) Notes and accounts receivable
These fair values are presented at amount recorded in balance sheets, since they are settled in a short period of time and their fair value reasonably approximates the amount recorded in the balance sheets.
(3) Investments in securities
The fair value of securities is based on the market price on the stock exchange. The fair value of bond is based on the quotes presented by the financial institutions.
(4) Long-term trade receivables
Fair value of the Long-term trade receivables is based on the amount after deducting the present estimated doubtful receivables from the balance sheet values, as estimated doubtful receivables are calculated based on the present value of loans/receivables.
Liabilities
(1) Notes and accounts payable, (2) Short-term borrowings, and (3) Other accrued expenses
These fair values are presented at amount recorded in balance sheets, since they are settled in a short period of time and their fair value reasonably approximates the amount recorded in the balance sheets.
(4) Long-term debt
The fair value is based primarily on the method of calculation whereby the sum of principal and interest amounts is discounted by an assumed interest rate to be applied for newly borrowed long-term loans. Some long-term borrowings with floating interest rates and related interest rate swaps are accounted for using special accounting treatment applicable to interest rate swaps. Hence, the fair value of a long-term borrowing is based on the method of calculation whereby the sum of principal and interest, treated in combination with the said interest rate swap, is discounted by a reasonably estimable interest rate to be applied for newly borrowed long-term loans under similar borrowing terms.
Derivative transactions
Described in Note 16.

2. Financial instruments whose fair value is considered extremely difficult to assess
Unlisted equity securities (¥7,274 million ($64,946 thousand) and ¥9,612 million) at March 31, 2017 and 2016, respectively, are not included in (3) Investments in securities because they have no market price and it is deemed extremely difficult to assess their fair values.

8. RETIREMENT BENEFITS

The Company and domestic consolidated subsidiaries have either funded or unfunded defined benefit plans and defined contribution plans.

The noncontributory defined benefit plan that is a funded plan adopts a cash balance plan. In this plan, amount of benefit in which the "Point" based on the pay level is multiplied by rate based on the Japanese Government Bonds is provided to employee as pension or lump-sum payment.

The lump-sum retirement benefit is provided employee in accordance with the "Point" based on the business results, and the length of service. The lump-sum retirement payment plans are unfunded plans excluding the Company. The Company's plan is a funded plan due to contribution to the pension and retirement benefit trust.

Several overseas consolidated subsidiaries have defined benefit and defined contribution pension plans.

The Company has pension and retirement benefit trust.

Certain consolidated subsidiaries appraise projected benefit obligation and retirement benefit expenses of lump-sum retirement payment plans by the simplified method.

The changes in the retirement benefit obligation during the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Retirement benefit obligation at April 1, 2016 and 2015	**¥ 109,538**	¥ 112,442	**$ 978,017**
Service cost	**2,803**	2,868	**25,026**
Interest cost	**1,236**	1,341	**11,035**
Actuarial gain/loss	**2,414**	9	**21,553**
Retirement benefit paid	**(6,380)**	(6,766)	**(56,964)**
Other	**(255)**	(357)	**(2,276)**
Retirement benefit obligation at March 31, 2017 and 2016	**¥ 109,357**	¥ 109,538	**$ 976,401**

The changes in plan assets during the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Plan assets at April 1, 2016 and 2015	**¥ 111,983**	¥ 120,103	**$ 999,848**
Expected return on plan assets	**2,720**	2,986	**24,285**
Actuarial gain/loss	**(1,610)**	(10,061)	**(14,375)**
Contributions by the Company and subsidiaries	**3,598**	4,757	**32,125**
Retirement benefits paid	**(5,155)**	(5,801)	**(46,026)**
Return of assets from retirement benefits trust	**(18,717)**	—	**(167,116)**
Other	**(151)**	—	**(1,348)**
Plan assets at March 31, 2017 and 2016	**¥ 92,668**	¥ 111,983	**$ 827,392**

*The plan assets include the Company's retirement benefit trust of ¥20,067 million ($179,169 thousand) and ¥38,983 million for the years ended March 31, 2017 and 2016, respectively.

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Funded retirement benefit obligation	**¥ 93,830**	¥ 94,864	**$ 837,767**
Plan assets at fair value	**(92,668)**	(111,983)	**(827,392)**
	1,162	(17,119)	**10,375**
Unfunded retirement benefit obligation	**15,526**	14,673	**138,625**
Net liability for retirement benefits in the balance sheet	**¥ 16,688**	¥ (2,445)	**$ 149,000**
Liability for retirement benefits	**26,199**	24,841	**233,919**
Asset for retirement benefits	**(9,511)**	(27,286)	**(84,919)**
Net asset for retirement benefits in the balance sheet	**¥ 16,688**	¥ (2,445)	**$ 149,000**

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service cost	**¥ 2,803**	¥ 2,868	**$ 25,026**
Interest cost	**1,236**	1,341	**11,035**
Expected return on plan assets	**(2,720)**	(2,986)	**(24,285)**
Amortization of actuarial gain/loss	**(1,673)**	(1,727)	**(14,937)**
Amortization of prior service cost	**(1,457)**	(1,450)	**(13,008)**
Other	**208**	142	**1,857**
Retirement benefit expense	**¥ (1,604)**	¥ (1,811)	**$ (14,321)**
Gain on return of assets from retirement benefits trust	**¥ (7,822)**	—	**$ (69,839)**

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Prior service cost	**¥ (1,481)**	¥ (1,450)	**$ (13,223)**
Actuarial gain/loss	**(13,416)**	(11,805)	**(119,785)**
Total	**¥ (14,897)**	¥ (13,255)	**$ (133,008)**

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service cost	**¥ (1,711)**	¥ (3,192)	**$ (15,276)**
Unrecognized actuarial gain/loss	**1,786**	(11,630)	**15,946**
Total	**¥ 74**	¥ (14,822)	**$ 660**

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 were as follows:

	2017	2016
Bonds	**41%**	42%
Stocks	**26**	38
Alternative	**19**	8
Other	**13**	12
Total*	**100%**	100%

*The Company's pension and retirement benefit trust consists of 16% of the total plan assets for the year ended March 31, 2017 and 31% of the total plan assets for the year ended March 31, 2016, respectively.

The expected return on assets has been estimated based on the average rate of the latest 3 years in consideration of the assets composition ratio.

The assumptions used in accounting for the above plans were as follows:

	2017	2016
Discount rate	**0.9%**	0.9%
Expected rate of return on plan assets	**2.5%**	2.5%

The Company and domestic consolidated subsidiaries paid for defined contribution pension plans of ¥2,241 million ($20,008 thousand) and ¥2,140 million for the years ended March 31, 2017 and 2016, respectively.

9. INCOME TAXES

Deferred tax assets and liabilities at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Loss carryforwards	**¥ 13,916**	¥ 14,515	**$ 124,250**
Liability for retirement benefits	**12,942**	12,836	**115,553**
Excess of allowance for doubtful receivables and bad debts expenses	**4,861**	2,261	**43,401**
Accrued bonuses	**3,608**	4,301	**32,214**
Write-downs of inventories	**2,504**	2,519	**22,357**
Accounts payable for revision of retirement payment plan	**2,235**	3,455	**19,955**
Write-downs of investments on securities	**1,884**	1,857	**16,821**
Loss on impairment of fixed assets	**1,706**	1,739	**15,232**
Elimination of unrealized intercompany profits	**1,559**	1,649	**13,919**
Other	**6,921**	6,187	**61,794**
Gross deferred tax assets	**52,140**	51,324	**465,535**
Less: Valuation allowance	**(44,435)**	(41,435)	**(396,741)**
Total deferred tax assets	**7,705**	9,889	**68,794**
Deferred tax liabilities:			
Write-ups of investments in securities	**(5,793)**	—	**(51,723)**
Asset for retirement benefits	**(4,833)**	(9,219)	**(43,151)**
Net unrealized holding gain on other securities	**(2,267)**	(1,989)	**(20,241)**
Taxable unrealized gain on contribution of securities to a pension trust	**(1,981)**	(3,298)	**(17,687)**
Other	**(983)**	(1,074)	**(8,776)**
Total deferred tax liabilities	**(15,858)**	(15,582)	**(141,589)**
Net deferred tax liabilities	**¥ (8,153)**	¥ (5,693)	**$ (72,794)**

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Other current assets	**¥ 5,454**	¥ 6,750	**$ 48,696**
Other assets	**1,075**	1,299	**9,598**
Other current liabilities	**(0)**	—	**(0)**
Other long-term liabilities	**(14,683)**	(13,742)	**(131,098)**
Net deferred tax liabilities	**¥ (8,153)**	¥ (5,693)	**$ (72,794)**

Income taxes applicable to the Company and domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 31% and 33% for the years ended March 31, 2017 and 2016, respectively. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation. A reconciliation between the statutory tax rates and the effective tax rates as a percentage of profit (loss) before income taxes for the years ended March 31, 2017 and 2016 were summarized as follows:

	2017	2016
Statutory tax rates	**31.0 %**	33.0 %
Additions to (deductions from) income taxes resulting from:		
Permanent differences not recognized for tax purposes such as dividends received	**(1.0)**	(2.0)
Permanent nondeductible differences such as entertainment expenses	**4.0**	7.2
Increase (decrease) in valuation allowance for deferred tax assets	**25.0**	9.2
Per capita portion of inhabitants' taxes	**2.1**	2.4
Other, net	**6.4**	5.1
Effective tax rates	**67.5 %**	54.9 %

10. SHAREHOLDERS' EQUITY

Companies Act of Japan (the "Act") provides that amounts from additional paid-in capital and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or that of the board of directors if certain provisions are met subject to the extent of the applicable sources of such distributions. The Act further provides that amounts equal to 10% of such distributions be transferred to the capital reserve included in additional paid-in capital or the legal reserve included in retained earnings based on the applicable sources of such distributions until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

11. RESEARCH AND DEVELOPMENT EXPENSES

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

Millions of yen		Thousands of U.S. dollars
2017	2016	**2017**
¥ 10,275	¥ 13,317	**$ 91,741**

12. GAIN ON SALE OF SHARES OF SUBSIDIARIES

For the year ended March 31, 2017, the Company sold all the shares of Oki Sensor Device Corporation which was a consolidated subsidiary and recorded gain on sale.

13. GAIN ON RETURN OF ASSETS FROM RETIREMENT BENEFITS TRUST

For the year ended March 31, 2017, the Company canceled part of the trust and received the return of the asset and recorded the corresponding actuarial gain/loss.

14. LOSS ON SALE AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

For the year ended March 31, 2017, loss on sale was recorded mainly as the Company sold land and building of training facilities.

15. LOSS ON ANTI-MONOPOLY ACT

For the year ended March 31, 2017, the Company recorded loss for surcharge and relevant costs due to violation of the Anti-Monopoly Act.

16. DERIVATIVES

Derivative transactions at March 31, 2017 and 2016 were as follows:

(a) Derivative transactions which do not qualify for hedge accounting

Forward foreign exchange contract

	Millions of yen				Thousands of U.S. dollars			
	2017				**2017**			
	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain/loss	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain/loss
Sell:								
Euro	**¥ 5,531**	**¥ —**	**¥ (217)**	**¥ (217)**	**$ 49,383**	**$ —**	**$ (1,937)**	**$ (1,937)**
Buy:								
U.S. Dollars	**2,674**	**—**	**130**	**130**	**23,875**	**—**	**1,160**	**1,160**
Total	**¥ 8,206**	**¥ —**	**¥ (87)**	**¥ (87)**	**$ 73,267**	**$ —**	**$ (776)**	**$ (776)**

	Millions of yen			
	2016			
	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain/loss
Sell:				
Euro	¥ 14,977	¥ —	¥ 816	¥ 816
Brazilian Real	4,059	—	(112)	(112)
Buy:				
U.S. Dollars	2,393	—	(139)	(139)
Total	¥ 21,429	¥ —	¥ 565	¥ 565

Note: Fair value is based on the quotes presented by the financial institutions.

(b) Derivative transactions which qualify for hedge accounting

(1) Forward foreign exchange contract (The principle deferral hedge accounting)

		Millions of yen			Thousands of U.S. dollars		
		2017			**2017**		
	Hedged item	Contract amount	Contract amount over 1 year	Fair value	Contract amount	Contract amount over 1 year	Fair value
Sell:							
Euro	Accounts receivable	**¥ 12,622**	**¥ —**	**¥ 173**	**$ 112,696**	**$ —**	**$ 1,544**
Buy:							
U.S. Dollars	Accounts payable	**11,172**	**—**	**(176)**	**99,750**	**—**	**(1,571)**
Total		**¥ 23,794**	**¥ —**	**¥ (2)**	**$ 212,446**	**$ —**	**$ (17)**

		Millions of yen		
		2016		
	Hedged item	Contract amount	Contract amount over 1 year	Fair value
Sell:				
U.S. Dollars	Accounts receivable	¥ 90	¥ —	¥ 0
Euro	Accounts receivable	2,763	—	91
Buy:				
U.S. Dollars	Accounts payable	14,615	—	(654)
Total		¥ 17,469	¥ —	¥ (561)

Note: Fair value is based on the quotes presented by the financial institutions.

(2) Currency swaps

		Millions of yen			Thousands of U.S. dollars		
		2017			**2017**		
	Hedged item	Contract amount	Contract amount over 1 year	Fair value	Contract amount	Contract amount over 1 year	Fair value
Pay Yen/receive U.S. Dollars	Long-term borrowings	**¥ 762**	**¥ 254**	**¥ 60**	**$ 6,803**	**$ 2,267**	**$ 535**

		Millions of yen		
		2016		
	Hedged item	Contract amount	Contract amount over 1 year	Fair value
Pay Yen/receive U.S. Dollars	Long-term borrowings	¥ 1,270	¥ 762	¥ 102

Note: Fair value is based on the quotes presented by the financial institutions.

(3) Interest rate swaps

		Millions of yen			Thousands of U.S. dollars		
		2017			**2017**		
	Hedged item	Contract amount	Contract amount over 1 year	Fair value	Contract amount	Contract amount over 1 year	Fair value
Pay fixed/receive floating	Long-term borrowings	**¥ 36,033**	**¥ 22,172**	*	**$ 321,723**	**$ 197,964**	*

		Millions of yen		
		2016		
	Hedged item	Contract amount	Contract amount over 1 year	Fair value
Pay fixed/receive floating	Long-term borrowings	¥ 50,231	¥ 36,033	*

*Derivative transactions subject to special accounting treatment applied to interest rate swaps are treated in combination with long-term borrowings as hedged items. Hence, their fair value is included in that of long-term borrowings.
Note: Fair value is based on the quotes presented by the financial institutions.

17. LEASES

Lease payments relating to finance leases started before March 31, 2008, accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥3 million ($26 thousand) and ¥3 million for the years ended March 31, 2017 and 2016, respectively.

The leases which were started on or before March 31, 2008 are principally accounted for as operating leases.

Leased assets held under finance leases accounted for as operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Machinery and equipment	**¥ 28**	¥ 28	**$ 250**
Less: Accumulated depreciation	**25**	23	**223**
Total	**¥ 2**	¥ 4	**$ 17**

Depreciation is computed by applying the straight-line method over the estimated useful lives of the related assets assuming that the Company guarantees a nil residual value at the end of the term of each lease.

The following is a schedule of future minimum lease payments under finance leases accounted for as operating leases:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 2	$ 17
Total	¥ 2	$ 17

Minimum rental payments subsequent to March 31, 2017 required under operating leases with noncancelable lease terms in excess of one year are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 2,326	$ 20,767
2019 and thereafter	10,735	95,848
Total	¥ 13,061	$ 116,616

18. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
As guarantors of employees' housing loans	**¥ 229**	¥ 309	**$ 2,044**

19. AMOUNTS PER SHARE

In accordance with the accounting standard for earnings per share, basic earnings per share is computed based on the profit attributable to owners of parent of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted earnings per share is computed based on the profit attributable to owners of parent available for distribution to the shareholders and the weighted-average numbers of shares of common stock outstanding during each year assuming full conversion of the convertible bonds and full exercise of the subscription rights to shares. Net assets per share are based on the number of shares of common stock outstanding at the year end.

*A one-for ten stock consolidation was made on October 1, 2016. Assuming that stocks were consolidated at the beginning of the previous fiscal year, amounts per share is computed.

	Yen		U.S. dollars
	2017	2016	**2017**
Earnings:			
Basic	**¥ 54.03**	¥ 76.10	**$ 0.48**
Diluted	**¥ 54.01**	—	**$ 0.48**

	Yen		U.S. dollars
	2017	2016	**2017**
Net assets	**¥ 1,115.68**	¥ 1,229.09	**$ 9.96**

20. STOCK OPTION PLANS

At March 31, 2017, the following employee stock option plans of the Company had been approved by the shareholders:

*A one-for-ten stock consolidation was made on October 1, 2016.

Date of approval by shareholders	June 26, 2007	July 29, 2016
Grantees	9 directors, 10 executive officers, 6 management officials and 1 director of a subsidiary	4 directors and 13 executive officers
Type of shares to be issued	Common stock	Common stock
Number of shares reserved	50,900 shares	55,700 shares
Exercise price	¥ 2,480	¥ 1
Exercisable period	July 1, 2009– June 25, 2017	August 17, 2016– August 16, 2041

21. BUSINESS COMBINATION

Business combinations for the year ended March 31, 2017 consisted of the following:

(Transaction under common control)

At the Board of Directors meeting held on December 27, 2016, the Company resolved to acquire additional shares of OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A.

The Company acquired shares on January 11, 2017.

1. Summary of transaction

a) Name and business of joined company
   Name: OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A.
   Business: Design, develop, manufacture, sell automated equipment and provide services

b) Date of the business combination
   January 11, 2017

c) Legal form of the business combination
   Acquisition of shares

d) Name of company after business combination
No change in name

e) Other items related to summary to transaction
As a result of acquiring additional 4.99% of the stock of OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A., the equity has reached 88.77%.

2. Summary of accounting
Based on "Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013), we accounted for this transaction as transactions with non-controlling interests under common control.

3. Items to be noted when additional subsidiary shares are acquired
Acquisition costs

Consideration paid for the acquisition	Cash and deposits	¥ 1,930 million ($ 17,232 thousand)
Total		¥ 1,930 million ($ 17,232 thousand)

4. Items related to change in ownership interest of parent due to transactions with non-controlling interests
a) Reason for change in capital surplus
Acquisition of additional subsidiary stock

b) Reduction amount of capital surplus due to transactions with non-controlling interests
¥1,866 million ($16,660 thousand)

(Business divestiture)
At the Board of Directors meeting held on February 2, 2017, the Company resolved to sell all the shares of Oki Sensor Device Corporation to Mold-Tech Singapore PTE LTD belonging to Standex International Corporation.
The Company sold all shares on March 31, 2017.

1. Summary of business divestiture
a) Name of buyer company
Mold-Tech Singapore PTE LTD

b) Contents of divesting business
Develop, manufacture, sell reed switches and applied product

c) Reason to divest business
OKI group is reassessing the business portfolio and assets to strengthen resources in its focus areas.
Oki Sensor Device Corporation has a worldwide market share for automobiles and home appliance market, so it has contributed to OKI group. But as a result of examining the position of reed switches business and the development of the business in the future, it is possible to generate synergistic effect, so we decided that it would be best to sell shares to Standex International Corporation group.

d) Date of the business divestiture
March 31, 2017

e) Other items related to summary to transaction including legal form
Stock transfer with payment only for cash

2. Summary of accounting
a) Amount of gains / losses transferred
Gain on sales of shares of subsidiaries and associates of ¥12,567 million ($112,205 thousand)

b) Amount of assets and liabilities of transferred business

Current assets	¥ 3,110 million	($ 27,767 thousand)
Non-current assets	1,419 million	(12,669 thousand)
Total assets	4,529 million	(40,437 thousand)
Current liabilities	(1,784) million	((15,928) thousand)
Non-current liabilities	(152) million	((1,357) thousand)
Total liabilities	¥ (1,936) million	($ (17,285) thousand)

c) Accounting treatment
Based on "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013), we accounted for this transaction.

3. The segment that contained divesting business
Other (the divesting business is not contained in the reporting segment)

4. Approximate amount of net sales and operating profit on divesting business

Net sales	¥ 5,983 million	($ 53,419 thousand)
Operating profit	¥ 1,567 million	($ 13,991 thousand)

22. SEGMENT INFORMATION

Business segments

The Group classifies its businesses into ICT, Mechatronics Systems, Printers and EMS.

*From the year ended March 31, 2017, the segment has been changed from Info-telecom systems, Printers and EMS to ICT, Mechatronics Systems, Printers and EMS. The segment information for the year ended March 31, 2016 is restated into new segments.

The segment information for the years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen								
	2017								
	Segments					Other	Total	Adjustments	Consolidated
For the year ended March 31	ICT	Mechatronics Systems	Printers	EMS	Subtotal				
Sales to third parties	**¥ 177,391**	**¥ 100,923**	**¥ 112,389**	**¥ 43,165**	**¥ 433,870**	**¥ 17,756**	**¥ 451,627**	**¥ —**	**¥ 451,627**
Inter-segment sales and transfers	**4,312**	**1,622**	**5,617**	**181**	**11,733**	**19,108**	**30,842**	**(30,842)**	**—**
Net sales	**181,703**	**102,545**	**118,007**	**43,346**	**445,603**	**36,865**	**482,469**	**(30,842)**	**451,627**
Operating income (loss)	**14,385**	**(11,818)**	**1,033**	**2,058**	**5,659**	**3,431**	**9,090**	**(6,545)**	**2,545**
Total assets	**105,583**	**69,280**	**67,154**	**30,900**	**272,919**	**20,066**	**292,986**	**67,738**	**360,724**
Depreciation and amortization	**2,974**	**3,218**	**4,063**	**934**	**11,191**	**1,124**	**12,316**	**1,245**	**13,561**
Investments in equity-method affiliates	**1,937**	**—**	**—**	**—**	**1,937**	**30**	**1,968**	**3,518**	**5,486**
Increase in property, plant, equipment and intangible assets	**¥ 2,554**	**¥ 4,620**	**¥ 2,463**	**¥ 764**	**¥ 10,403**	**¥ 1,161**	**¥ 11,565**	**¥ 1,209**	**¥ 12,774**

	Millions of yen								
	2016								
	Segments					Other	Total	Adjustments	Consolidated
For the year ended March 31	ICT	Mechatronics Systems	Printers	EMS	Subtotal				
Sales to third parties	¥ 191,174	¥ 113,667	¥ 124,647	¥ 42,354	¥ 471,843	¥ 18,471	¥ 490,314	¥ —	¥ 490,314
Inter-segment sales and transfers	4,777	1,664	5,580	308	12,330	24,183	36,514	(36,514)	—
Net sales	195,951	115,332	130,228	42,662	484,174	42,655	526,829	(36,514)	490,314
Operating income (loss)	11,627	6,017	1,426	2,284	21,355	4,185	25,541	(6,946)	18,594
Total assets	116,899	95,469	71,652	31,649	315,671	26,439	342,110	69,665	411,776
Depreciation and amortization	3,164	3,296	4,120	1,048	11,630	1,115	12,746	1,243	13,989
Investments in equity-method affiliates	2,102	—	—	—	2,102	30	2,133	3,381	5,515
Increase in property, plant, equipment and intangible assets	¥ 2,984	¥ 4,918	¥ 3,355	¥ 1,010	¥ 12,267	¥ 1,556	¥ 13,824	¥ 1,133	¥ 14,957

Thousands of U.S. dollars

For the year ended March 31	2017								
	Segments								
	ICT	Mechatronics Systems	Printers	EMS	Subtotal	Other	Total	Adjustments	Consolidated
Sales to third parties	$ 1,583,848	$ 901,098	$ 1,003,473	$ 385,401	$ 3,873,839	$ 158,535	$ 4,032,383	$ —	$ 4,032,383
Inter-segment sales and transfers	38,500	14,482	50,151	1,616	104,758	170,607	275,375	(275,375)	—
Net sales	1,622,348	915,580	1,053,633	387,017	3,978,598	329,151	4,307,758	(275,375)	4,032,383
Operating income (loss)	128,437	(105,517)	9,223	18,375	50,526	30,633	81,160	(58,437)	22,723
Total assets	942,705	618,571	599,589	275,892	2,436,776	179,160	2,615,946	604,803	3,220,750
Depreciation and amortization	26,553	28,732	36,276	8,339	99,919	10,035	109,964	11,116	121,080
Investments in equity-method affiliates	17,294	—	—	—	17,294	267	17,571	31,410	48,982
Increase in property, plant, equipment and intangible assets	$ 22,803	$ 41,250	$ 21,991	$ 6,821	$ 92,883	$ 10,366	$ 103,258	$ 10,794	$ 114,053

(1) Adjustments of Operating income (loss) consist principally of expenses in the Company's General and Administrative Department and research and development expenses within the Group amounting to ¥6,874 million ($61,375 thousand) and ¥6,935 million for the years ended March 31, 2017 and 2016, respectively.
(2) Adjustments of total assets consist principally of the Company's surplus funds, funds for long-term investments and assets belonging to the General and Administrative Department amounting to ¥183,130 million ($1,635,089 thousand) and ¥199,806 million at March 31, 2017 and 2016, respectively.

23. RELATED PARTY INFORMATION

There was no transaction of the Company with Corporate pension for employees for the year ended March 31, 2016.
Transactions of the Company with Corporate pension for employees for the year ended March 31, 2017 was as follows:

(Millions of yen)

Relationship	Name of Company	Location	Paid-in-Capital or Advance	Description of business	Share of voting rights (%)	Relations with related parties	Description of transaction	Amount of transactions	Financial statement line-item	Amount outstanding at end of year
Corporate pension	Retirement benefit trust	—	—	—	—	Pension assets on retirement benefit accounting	Partial return of assets	¥ 18,717	—	—

(Thousands of U.S. dollars)

Relationship	Name of Company	Location	Paid-in-Capital or Advance	Description of business	Share of voting rights (%)	Relations with related parties	Description of transaction	Amount of transactions	Financial statement line-item	Amount outstanding at end of year
Corporate pension	Retirement benefit trust	—	—	—	—	Pension assets on retirement benefit accounting	Partial return of assets	$ 167,116	—	—

24. ADDITIONAL INFORMATION

(Appeal of arbitration by consolidated subsidiary)
On October 10, 2015, Oki Banking Systems (Shenzhen), a consolidated subsidiary of the Company, submitted a dispute to arbitration demanding payment of outstanding accounts receivable of RMB 1,115,463 thousand or ¥18,170 million ($162,232 thousand) and related damages against a distributor, Shenzhen Yihua Computer Industrial Co., Ltd.

The case is currently under examination by the South China International Economic and Trade Arbitration Commission Shenzhen Court of International Arbitration (SCIA).

Considering the fact that the examination is expected to take a long period of time, expenses of ¥10,893 million ($97,258 thousand) was recorded as allowance for doubtful accounts in the year ended March 31, 2017.

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)
The Company and its domestic consolidated subsidiaries adopted "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016), effective from April 1, 2016.