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Form 10-K
May 30, 2018

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ens:segment iso4217:USD ens:acquisition utreg:lb ens:Employee ens:Country

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2018 or**

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission file number: 001-32253

ENERSYS

(Exact name of registrant as specified in its charter)

Delaware	**23-3058564**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2366 Bernville Road
Reading, Pennsylvania 19605
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: 610-208-1991

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý YES ¨ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ YES ý NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý YES ¨ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ YES ý NO

State the aggregate market value of the voting and non-voting common equity held by non-affiliates at **October 1, 2017**: $2,901,470,255 (1) (based upon its closing transaction price on the New York Stock Exchange on September 29, 2017).

(1) For this purpose only, "non-affiliates" excludes directors and executive officers.

Common stock outstanding at May 25, 2018: **42,112,206 Shares of Common Stock**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on or about August 2, 2018 are incorporated by reference in Part III of this Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward-looking statements made by or on behalf of EnerSys. EnerSys and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in EnerSys' filings with the Securities and Exchange Commission (“SEC”) and its reports to stockholders. Generally, the inclusion of the words “anticipate,” “believe,” “expect,” “future,” “intend,” “estimate,” “will,” “plans,” or the negative of such terms and similar expressions identify statemen that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that EnerSys expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management’s then-current beliefs and assumptions regarding future events and operating performance and on information currently available to management, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in this Annual Report on Form 10-K and other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Annual Report on Form 10-K, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K.

Our actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including the following factors:

- general cyclical patterns of the industries in which our customers operate;
- the extent to which we cannot control our fixed and variable costs;
- the raw materials in our products may experience significant fluctuations in market price and availability;
- certain raw materials constitute hazardous materials that may give rise to costly environmental and safety claims;
- legislation regarding the restriction of the use of certain hazardous substances in our products;
- risks involved in our operations such as disruption of markets, changes in import and export laws, environmental regulations, currency restrictions and local currency exchange rate fluctuations;
- our ability to maintain relationships with customers, including raising our selling prices to our customers when our product costs increase;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- general economic conditions in the markets in which we operate;
- competitiveness of the battery markets and other energy solutions for industrial applications throughout the world;
- our timely development of competitive new products and product enhancements in a changing environment and the acceptance of such products and product enhancements by customers;
- our ability to adequately protect our proprietary intellectual property, technology and brand names;
- litigation and regulatory proceedings to which we might be subject;
- our expectations concerning indemnification obligations;
- changes in our market share in the geographic business segments where we operate;
- our ability to implement our cost reduction initiatives successfully and improve our profitability;
- quality problems associated with our products;
-

our ability to implement business strategies, including our acquisition strategy, manufacturing expansion and restructuring plans;

- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames;
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;
- our debt and debt service requirements which may restrict our operational and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities;
- adverse changes in our short- and long-term debt levels under our credit facilities;

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- our exposure to fluctuations in interest rates on our variable-rate debt;
- our ability to attract and retain qualified management and personnel;
- our ability to maintain good relations with labor unions;
- credit risk associated with our customers, including risk of insolvency and bankruptcy;
- our ability to successfully recover in the event of a disaster affecting our infrastructure;
- terrorist acts or acts of war, could cause damage or disruption to our operations, our suppliers, channels to market or customers, or could cause costs to increase, or create political or economic instability; and
- the operation, capacity and security of our information systems and infrastructure.

This list of factors that may affect future performance is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

EnerSys
Annual Report on Form 10-K
For the Fiscal Year Ended March 31, 2018
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PART I

ITEM 1.*BUSINESS*

Overview

EnerSys (the "Company," "we," or "us") is the world's largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute products such as battery chargers, power equipment, battery accessories, and outdoor cabinet enclosures. Additionally, we provide related aftermarket and customer-support services for our products. We market our products globally to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force.

We operate and manage our business in three geographic regions of the world—Americas, EMEA and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside of the United States, and approximately 50% of our net sales were generated outside of the United States. The Company has three reportable business segments based on geographic regions, defined as follows:

- **Americas**, which includes North and South America, with our segment headquarters in Reading, Pennsylvania, U.S.A.;
- **EMEA**, which includes Europe, the Middle East and Africa, with our segment headquarters in Zug, Switzerland; and
- **Asia**, which includes Asia, Australia and Oceania, with our segment headquarters in Singapore.

We have two primary product lines: reserve power and motive power products. Net sales classifications by product line are as follows:

- **Reserve power products** are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or "UPS" applications for computer and computer-controlled systems, and other specialty power applications, including medical and security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities, large-scale energy storage, energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships and tactical vehicles. Reserve power products also include thermally managed cabinets and enclosures for electronic equipment and batteries.

- **Motive power products** are used to provide power for electric industrial forklifts used in manufacturing, warehousing and other material handling applications, as well as mining equipment, diesel locomotive starting and other rail equipment.

Additionally, see Note 22 to the Consolidated Financial Statements for information on segment reporting.

Fiscal Year Reporting

In this Annual Report on Form 10-K, when we refer to our fiscal years, we state "fiscal" and the year, as in "fiscal 2018", which refers to our fiscal year ended March 31, 2018. The Company reports interim financial information for 13-week periods, except for the first quarter, which always begins on April 1, and the fourth quarter, which always ends on March 31. The four quarters in fiscal 2018 ended on July 2, 2017, October 1, 2017, December 31, 2017, and March 31, 2018, respectively. The four quarters in fiscal 2017 ended on July 3, 2016, October 2, 2016, January 1, 2017, and March 31, 2017, respectively.

History

EnerSys and its predecessor companies have been manufacturers of industrial batteries for over 125 years. Morgan Stanley Capital Partners teamed with the management of Yuasa, Inc. in late 2000 to acquire from Yuasa Corporation (Japan) its reserve power and motive power battery businesses in North and South America. We were incorporated in October 2000 for the purpose of completing the Yuasa, Inc. acquisition. On January 1, 2001, we changed our name from Yuasa, Inc. to EnerSys to reflect our focus on the energy systems nature of our businesses.

In 2004, EnerSys completed its initial public offering (the “IPO”) and the Company’s common stock commenced trading on the New York Stock Exchange, under the trading symbol “ENS”.

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Key Developments

There have been several key stages in the development of our business, which explain to a significant degree our results of operations over the past several years.

In March 2002, we acquired the reserve power and motive power business of the Energy Storage Group of Invensys plc. (“ESG”). Our successful integration of ESG provided global scale in both the reserve and motive power markets. The ESG acquisition also provided us with a further opportunity to reduce costs and improve operating efficiency.

During fiscal years 2003 through 2018, we made twenty-eight acquisitions around the globe. In fiscal 2016, we completed the acquisition of ICS Industries Pty. Ltd. (ICS), headquartered in Melbourne, Australia. ICS is a leading full line shelter designer and manufacturer with installation and maintenance services serving the telecommunications, utilities, datacenter, natural resources and transport industries operating in Australia and serving customers in the Asia Pacific region.

Our Customers

We serve over 10,000 customers in over 100 countries, on a direct basis or through our distributors. We are not overly dependent on any particular end market. Our customer base is highly diverse, and no single customer accounts for more than 5% of our revenues.

Our reserve power customers consist of both global and regional customers. These customers are in diverse markets including telecom, UPS, electric utilities, security systems, emergency lighting, premium starting, lighting and ignition applications and space satellites. In addition, we sell our aerospace and defense products in numerous countries, including the governments of the U.S., Germany and the U.K. and to major defense and aviation original equipment manufacturers (“OEMs”).

Our motive power products are sold to a large, diversified customer base. These customers include material handling equipment dealers, OEMs and end users of such equipment. End users include manufacturers, distributors, warehouse operators, retailers, airports, mine operators and railroads.

Distribution and Services

We distribute, sell and service reserve and motive power products throughout the world, principally through company-owned sales and service facilities, as well as through independent manufacturers’ representatives. Our company-owned network allows us to offer high-quality service, including preventative maintenance programs and customer support. Our warehouses and service locations enable us to respond quickly to customers in the markets we serve. We believe that the extensive industry experience of our sales organization results in strong long-term customer relationships.

Manufacturing and Raw Materials

We manufacture and assemble our products at manufacturing facilities located in the Americas, EMEA and Asia. With a view toward projected demand, we strive to optimize and balance capacity at our battery manufacturing facilities globally, while simultaneously minimizing our product cost. By taking a global view of our manufacturing requirements and capacity, we believe we are better able to anticipate potential capacity bottlenecks and equipment and capital funding needs.

The primary raw materials used to manufacture our products include lead, plastics, steel and copper. We purchase lead from a number of leading suppliers throughout the world. Because lead is traded on the world's commodity markets and its price fluctuates daily, we periodically enter into hedging arrangements for a portion of our projected requirements to reduce the volatility of our costs.

Competition

The industrial battery market is highly competitive both among competitors who manufacture and sell industrial batteries and among customers who purchase industrial batteries. Our competitors range from development stage companies to large domestic and international corporations. Certain of our competitors produce energy storage products utilizing technologies or chemistries different from our own. We compete primarily on the basis of reputation, product quality, reliability of service, delivery and price. We believe that our products and services are competitively priced.

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Americas

We believe that we have the largest market share in the Americas industrial battery market. We compete principally with East Penn Manufacturing, Exide Technologies and New Power in both the reserve and motive products markets; and also C&D Technologies Inc., EaglePicher (GTCR Group), NorthStar Battery, SAFT as well as Chinese producers in the reserve products market.

EMEA

We believe that we have the largest market share in the European industrial battery market. Our primary competitors are Exide Technologies, FIAMM, Hoppecke, SAFT as well as Chinese producers in the reserve products market; and Exide Technologies, Eternity, Hoppecke, Midac, Sunlight and TAB in the motive products market.

Asia

We have a small share of the fragmented Asian industrial battery market. We compete principally with GS-Yuasa, Shin-Kobe, Hoppecke and Zibo Torch in the motive products market; and Amara Raja, China Shoto, Coslight, Exide Industries, Leoch and Narada, in the reserve products market.

Warranties

Warranties for our products vary geographically and by product type and are competitive with other suppliers of these types of products. Generally, our reserve power product warranties range from one to twenty years and our motive power product warranties range from one to seven years. The length of our warranties is varied to reflect regional characteristics and competitive influences. In some cases, our warranty period may include a pro rata period, which is typically based around the design life of the product and the application served. Our warranties generally cover defects in workmanship and materials and are limited to specific usage parameters.

Intellectual Property

We have numerous patents and patent licenses in the United States and other jurisdictions but do not consider any one patent to be material to our business. From time to time, we apply for patents on new inventions and designs, but we believe that the growth of our business will depend primarily upon the quality of our products and our relationships with our customers, rather than the extent of our patent protection.

We believe we are leaders in thin plate pure lead technology (“TPPL”). We believe that a significant capital investment would be required by any party desiring to produce products using TPPL technology for our markets.

We own or possess exclusive and non-exclusive licenses and other rights to use a number of trademarks in various jurisdictions. We have obtained registrations for many of these trademarks in the United States and other jurisdictions. Our various trademark registrations currently have durations of approximately 10 to 20 years, varying by mark and jurisdiction of registration and may be renewable. We endeavor to keep all of our material registrations current. We believe that many such rights and licenses are important to our business by helping to develop strong brand-name recognition in the marketplace.

Seasonality

Our business generally does not experience significant quarterly fluctuations in net sales as a result of weather or other trends that can be directly linked to seasonality patterns, but historically our fourth quarter is our best quarter with higher revenues and generally more working days and our second quarter is the weakest due to the summer holiday season in Western Europe and North America.

Product and Process Development

Our product and process development efforts are focused on the creation of new stored energy products, and integrated power systems and controls. We allocate our resources to the following key areas:

- the design and development of new products;
- optimizing and expanding our existing product offering;

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- waste and scrap reduction;
- production efficiency and utilization;
- capacity expansion without additional facilities; and
- quality attribute maximization.

Employees

At March 31, 2018, we had approximately 9,600 employees. Of these employees, approximately 27% were covered by collective bargaining agreements. Employees covered by collective bargaining agreements that did not exceed twelve months were approximately 6% of the total workforce. The average term of these agreements is two years, with the longest term being three years. We consider our employee relations to be good. We did not experience any significant labor unrest or disruption of production during fiscal 2018.

Environmental Matters

In the manufacture of our products throughout the world, we process, store, dispose of and otherwise use large amounts of hazardous materials, especially lead and acid. As a result, we are subject to extensive and evolving environmental, health and safety laws and regulations governing, among other things: the generation, handling, storage, use, transportation and disposal of hazardous materials; emissions or discharges of hazardous materials into the ground, air or water; and the health and safety of our employees. In addition, we are required to comply with the regulation issued from the European Union called Registration, Evaluation, Authorization and Restriction of Chemicals or “REACH”. Under the regulation, companies which manufacture or import more than one ton of a covered chemical substance per year are required to register it in a central database administered by the European Chemicals Agency. The registration process requires the submission of information to demonstrate the safety of chemicals as used and could result in significant costs or delay the manufacture or sale of our products in the European Union. Additionally, industry associations and their member companies, including EnerSys, have scheduled meetings with the European Union member countries to advocate for their support of an exemption for lead compounds. Compliance with these laws and regulations results in ongoing costs. Failure to comply with these laws and regulations, or to obtain or comply with required environmental permits, could result in fines, criminal charges or other sanctions by regulators. From time to time, we have had instances of alleged or actual noncompliance that have resulted in the imposition of fines, penalties and required corrective actions. Our ongoing compliance with environmental, health and safety laws, regulations and permits could require us to incur significant expenses, limit our ability to modify or expand our facilities or continue production and require us to install additional pollution control equipment and make other capital improvements. In addition, private parties, including current or former employees, can bring personal injury or other claims against us due to the presence of, or their exposure to, hazardous substances used, stored, transported or disposed of by us or contained in our products.

Sumter, South Carolina

We currently are responsible for certain environmental obligations at our former battery facility in Sumter, South Carolina, that predate our ownership of this facility. This battery facility was closed in 2001 and is separate from our current metal fabrication facility in Sumter. We have a reserve of $1.1 million for this facility as of March 31, 2018. Based on current information, we believe this reserve is adequate to satisfy our environmental liabilities at this facility.

Environmental and safety certifications

Twenty of our facilities in the Americas, EMEA and Asia are certified to ISO 14001 standards. ISO 14001 is a globally recognized, voluntary program that focuses on the implementation, maintenance and continual improvement of an environmental management system and the improvement of environmental performance. Eight facilities in EMEA and Asia are certified to OHSAS 18001 standards. OHSAS 18001 is a globally recognized occupational health and safety management systems standard.

Quality Systems

We utilize a global strategy for quality management systems, policies and procedures, the basis of which is the ISO 9001:2015 standard, which is a worldwide recognized quality standard. We believe in the principles of this standard and reinforce this by requiring mandatory compliance for all manufacturing, sales and service locations globally that are registered to the ISO 9001 standard. This strategy enables us to provide consistent quality products and services to meet our customers’ needs.

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Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the Internet at the SEC's website at *http://www.sec.gov*. You may also read and copy any document we file with the SEC at the SEC's public reference room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our Internet address is *http://www.enersys.com*. We make available free of charge on *http://www.enersys.com* our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A.*RISK FACTORS*

The following risks and uncertainties, as well as others described in this Annual Report on Form 10-K, could materially and adversely affect our business, our results of operations and financial condition and could cause actual results to differ materially from our expectations and projections. Stockholders are cautioned that these and other factors, including those beyond our control, may affect future performance and cause actual results to differ from those which may, from time to time, be anticipated. There may be additional risks that are not presently material or known. See "Cautionary Note Regarding Forward-Looking Statements." All forward-looking statements made by us or on our behalf are qualified by the risks described below.

We operate in an extremely competitive industry and are subject to pricing pressures.

We compete with a number of major international manufacturers and distributors, as well as a large number of smaller, regional competitors. Due to excess capacity in some sectors of our industry and consolidation among industrial battery purchasers, we have been subjected to significant pricing pressures. We anticipate continued competitive pricing pressure as foreign producers are able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in our major Americas and European markets. Several of our competitors have strong technical, marketing, sales, manufacturing, distribution and other resources, as well as significant name recognition, established positions in the market and long-standing relationships with OEMs and other customers. In addition, certain of our competitors own lead smelting facilities which, during periods of lead cost increases or price volatility, may provide a competitive pricing advantage and reduce their exposure to volatile raw material costs. Our ability to maintain and improve our operating margins has depended, and continues to depend, on our ability to control and reduce our costs. We cannot assure you that we will be able to continue to control our operating expenses, to raise or maintain our prices or increase our unit volume, in order to maintain or improve our operating results.

The uncertainty in global economic conditions could negatively affect the Company's operating results.

Our operating results are directly affected by the general global economic conditions of the industries in which our major customer groups operate. Our business segments are highly dependent on the economic and market conditions in each of the geographic areas in which we operate. Our products are heavily dependent on the end markets that we serve and our operating results will vary by geographic segment, depending on the economic environment in these markets. Sales of our motive power products, for example, depend significantly on demand for new electric industrial forklift trucks, which in turn depends on end-user demand for additional motive capacity in their distribution and manufacturing facilities. The uncertainty in global economic conditions varies by geographic segment, and can result in substantial volatility in global credit markets, particularly in the United States, where we service the vast majority of our debt. These conditions affect our business by reducing prices that our customers may be able or willing to pay for our products or by reducing the demand for our products, which could in turn negatively impact our sales and earnings generation and result in a material adverse effect on our business, cash flow, results of operations and financial position.

Government reviews, inquiries, investigations, and actions could harm our business or reputation.

As we operate in various locations around the world, our operations in certain countries are subject to significant governmental scrutiny and may be adversely impacted by the results of such scrutiny. The regulatory environment with regard to our business is evolving, and officials often exercise broad discretion in deciding how to interpret and apply applicable regulations. From time to time, we receive formal and informal inquiries from various government regulatory authorities, as well as self-regulatory organizations, about our business and compliance with local laws, regulations or standards. For example, certain of the Company’s European subsidiaries have received subpoenas and requests for documents and, in some cases, interviews from, and have had on-site inspections conducted by the competition authorities of Belgium, Germany and the Netherlands relating to conduct and anticompetitive practices of certain industrial battery participants. The Company settled the Belgian regulatory proceeding in February 2016 by acknowledging certain anticompetitive practices and conduct and agreeing to pay a fine of $2.0 million, which was paid in March 2016. In June 2017, the Company settled a portion of its previously disclosed proceeding involving the German competition authority relating to conduct involving the Company's motive power battery business and agreed to pay a fine of $14.8 million, which was paid in July 2017. Also in June 2017, the German competition authority issued a fining decision related to the Company's reserve power battery business. The Company is appealing this decision, including payment of the proposed fine of $11.4 million. In July 2017, the Company settled the Dutch regulatory proceeding and agreed to pay a fine of $11.2 million, which was paid in August 2017. As of March 31, 2018, the Company had a total reserve balance of $2.3 million in connection with these investigations and related legal matters. However, the precise scope, timing and time period at issue, as well as the final outcome of the investigations or customer claims, remain uncertain and could be materially adverse to our business. (See Note 18 to the Consolidated Financial Statement).

Any determination that our operations or activities, or the activities of our employees, are not in compliance with existing laws, regulations or standards could result in the imposition of substantial fines, interruptions of business, loss of supplier, vendor, customer or other third-party relationships, termination of necessary licenses and permits, or similar results, all of which could potentially harm our business and/or reputation. Even if an inquiry does not result in these types of determinations, regulatory authorities could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business, and it potentially could create negative publicity which could harm our business and/or reputation.

Reliance on third party relationships and derivative agreements could adversely affect the Company's business.

We depend on third parties, including suppliers, distributors, lead toll operators, freight forwarders, insurance brokers, commodity brokers, major financial institutions and other third party service providers, for key aspects of our business, including the provision of derivative contracts to manage risks of (a) commodity cost volatility, (b) foreign currency exposures and (c) interest rate volatility. Failure of these third parties to meet their contractual, regulatory and other obligations to the Company, or the development of factors that materially disrupt our relationships with these third parties, could expose us to the risks of business disruption, higher commodity and interest costs, unfavorable foreign currency rates and higher expenses, which could have a material adverse effect on our business.

Our operating results could be adversely affected by changes in the cost and availability of raw materials.

Lead is our most significant raw material and is used along with significant amounts of plastics, steel, copper and other materials in our manufacturing processes. We estimate that raw material costs account for over half of our cost of goods sold. The costs of these raw materials, particularly lead, are volatile and beyond our control. Additionally, availability of the raw materials used to manufacture our products may be limited at times resulting in higher prices and/or the need to find alternative suppliers. Furthermore, the cost of raw materials may also be influenced by transportation costs. Volatile raw material costs can significantly affect our operating results and make period-to-period comparisons extremely difficult. We cannot assure you that we will be able to either hedge the costs or secure the availability of our raw material requirements at a reasonable level or, even with respect to our agreements that adjust pricing to a market-based index for lead, pass on to our customers the increased costs of our raw materials without affecting demand or that limited availability of materials will not impact our production capabilities. Our inability to raise the price of our products in response to increases in prices of raw materials or to maintain a proper supply of raw materials could have an adverse effect on our revenue, operating profit and net income.

Our operations expose us to litigation, tax, environmental and other legal compliance risks.

We are subject to a variety of litigation, tax, environmental, health and safety and other legal compliance risks. These risks include, among other things, possible liability relating to product liability matters, personal injuries, intellectual property rights, contract-related claims, government contracts, taxes, health and safety liabilities, environmental matters and compliance with U.S. and foreign laws, competition laws and laws governing improper business practices. We or one of our business units could be charged with wrongdoing as a result of such matters. If convicted or found liable, we could be subject to significant fines, penalties, repayments or other damages (in certain cases, treble damages). As a global business, we are subject to complex laws and regulations in the U.S. and other countries in which we operate. Those laws and regulations may be interpreted in different ways. They may also change from time to time, as may related interpretations and other guidance. Changes in laws or regulations could result in higher expenses and payments, and uncertainty relating to laws or regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights.

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In the area of taxes, changes in tax laws and regulations, as well as changes in related interpretations and other tax guidance could materially impact our tax receivables and liabilities and our deferred tax assets and tax liabilities. Additionally, in the ordinary course of business, we are subject to examinations by various authorities, including tax authorities. In addition to ongoing examinations, there could be additional investigations launched in the future by governmental authorities in various jurisdictions and existing investigations could be expanded. The global and diverse nature of our operations means that these risks will continue to exist and additional legal proceedings and contingencies will arise from time to time. Our results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty.

In the manufacture of our products throughout the world, we process, store, dispose of and otherwise use large amounts of hazardous materials, especially lead and acid. As a result, we are subject to extensive and changing environmental, health and safety laws and regulations governing, among other things: the generation, handling, storage, use, transportation and disposal of hazardous materials; remediation of polluted ground or water; emissions or discharges of hazardous materials into the ground, air or water; and the health and safety of our employees. Compliance with these laws and regulations results in ongoing costs. Failure to comply with these laws or regulations, or to obtain or comply with required environmental permits, could result in fines, criminal charges or other sanctions by regulators. From time to time we have had instances of alleged or actual noncompliance that have resulted in the imposition of fines, penalties and required corrective actions. Our ongoing compliance with environmental, health and safety laws, regulations and permits could require us to incur significant expenses, limit our ability to modify or expand our facilities or continue production and require us to install additional pollution control equipment and make other capital improvements. In addition, private parties, including current or former employees, could bring personal injury or other claims against us due to the presence of, or exposure to, hazardous substances used, stored or disposed of by us or contained in our products.

Certain environmental laws assess liability on owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances at their current or former properties or at properties at which they have disposed of hazardous substances. These laws may also assess costs to repair damage to natural resources. We may be responsible for remediating damage to our properties caused by former owners. Soil and groundwater contamination has occurred at some of our current and former properties and may occur or be discovered at other properties in the future. We are currently investigating and monitoring soil and groundwater contamination at several of our properties, in most cases as required by regulatory permitting processes. We may be required to conduct these operations at other properties in the future. In addition, we have been and in the future may be liable to contribute to the cleanup of locations owned or operated by other persons to which we or our predecessor companies have sent wastes for disposal, pursuant to federal and other environmental laws. Under these laws, the owner or operator of contaminated properties and companies that generated, disposed of or arranged for the disposal of wastes sent to a contaminated disposal facility can be held jointly and severally liable for the investigation and cleanup of such properties, regardless of fault. Additionally, our products may become subject to fees and taxes in order to fund cleanup of such properties, including those operated or used by other lead-battery industry participants.

Changes in environmental and climate laws or regulations, could lead to new or additional investment in production designs and could increase environmental compliance expenditures. Changes in climate change concerns, or in the regulation of such concerns, including greenhouse gas emissions, could subject us to additional costs and restrictions, including increased energy and raw materials costs. Additionally, we cannot assure you that we have been or at all times will be in compliance with environmental laws and regulations or that we will not be required to expend significant funds to comply with, or discharge liabilities arising under, environmental laws, regulations and permits, or that we will not be exposed to material environmental, health or safety litigation.

Also, the U.S. Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S.

officials for the purpose of obtaining or retaining business. The FCPA applies to companies, individual directors, officers, employees and agents. Under the FCPA, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. The FCPA also imposes accounting standards and requirements on publicly traded U.S. corporations and their foreign affiliates, which are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments. Certain of our customer relationships outside of the U.S. are with governmental entities and are therefore subject to such anti-bribery laws. Our policies mandate compliance with these anti-bribery laws. Despite meaningful measures that we undertake to facilitate lawful conduct, which include training and internal control policies, these measures may not always prevent reckless or criminal acts by our employees or agents. As a result, we could be subject to criminal and civil penalties, disgorgement, further changes or enhancements to our procedures, policies and controls, personnel changes or other remedial actions. Violations of these laws, or allegations of such violations, could disrupt our operations, involve significant management distraction and result in a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

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There is also a regulation to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. U.S. legislation included disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. In addition, the European Union adopted a EU-wide conflict minerals rule under which most EU importers of tin, tungsten, tantalum, gold and their ores will have to conduct due diligence to ensure the minerals do not originate from conflict zones and do not fund armed conflicts. Large manufacturers also will have to disclose how they plan to monitor their sources to comply with the rules. Compliance with the regulation is required by January 1, 2021. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of our products. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Future regulations may become more stringent or costly and our compliance costs and potential liabilities could increase, which may harm our business.

We are exposed to exchange rate risks, and our net earnings and financial condition may suffer due to currency translations.

We invoice our foreign sales and service transactions in local and foreign currencies and translate net sales using actual exchange rates during the period. We translate our non-U.S. assets and liabilities into U.S. dollars using current exchange rates as of the balance sheet dates. Because a significant portion of our revenues and expenses are denominated in foreign currencies, changes in exchange rates between the U.S. dollar and foreign currencies, primarily the euro, British pound, Polish zloty, Chinese renminbi, Mexican peso and Swiss franc may adversely affect our revenue, cost of goods sold and operating margins. For example, foreign currency depreciation against the U.S. dollar will reduce the value of our foreign revenues and operating earnings as well as reduce our net investment in foreign subsidiaries. Approximately 50% of net sales were generated outside of the United States for the last three fiscal years.

Most of the risk of fluctuating foreign currencies is in our EMEA segment, which comprised approximately one-third of our net sales during the last three fiscal years. The euro is the dominant currency in our EMEA operations. In the event that one or more European countries were to replace the euro with another currency, our sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established.

The translation impact from currency fluctuations on net sales and operating earnings in our Americas and Asia segments are not as significant as our EMEA segment, as a substantial majority of these net sales and operating earnings are in U.S. dollars or foreign currencies that have been closely correlated to the U.S. dollar.

If foreign currencies depreciate against the U.S. dollar, it would make it more expensive for our non-U.S. subsidiaries to purchase certain of our raw material commodities that are priced globally in U.S. dollars, while the related revenue will decrease when translated to U.S. dollars. Significant movements in foreign exchange rates can have a material impact on our results of operations and financial condition. We periodically engage in hedging of our foreign currency exposures, but cannot assure you that we can successfully hedge all of our foreign currency exposures or do so at a reasonable cost.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and intercompany and third party trade transactions. On a selective basis, we enter into foreign currency forward contracts and purchase option contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

If we are unable to effectively hedge against currency fluctuations, our operating costs and revenues in our non-U.S. operations may be adversely affected, which would have an adverse effect on our operating profit and net income.

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We may experience difficulties implementing our new global enterprise resource planning system.
We are engaged in a multi-year implementation of a new global enterprise resource planning system (“ERP”). The ERP is designed to efficiently maintain our financial records and provide information important to the operation of our business to our management team. The ERP will continue to require significant investment of human and financial resources. In implementing the ERP, we may experience significant delays, increased costs and other difficulties. Any significant disruption or deficiency in the design and implementation of the ERP could adversely affect our ability to process orders, ship product, send invoices and track payments, fulfill contractual obligations or otherwise operate our business. While we have invested significant resources in planning, project management and training, additional and significant implementation issues may arise. In addition, our efforts to centralize various business processes and functions within our organization in connection with our ERP implementation may disrupt our operations and negatively impact our business, results of operations and financial condition.
The failure to successfully implement efficiency and cost reduction initiatives, including restructuring activities, could materially adversely affect our business and results of operations, and we may not realize some or all of the anticipated benefits of those initiatives.

From time to time we have implemented efficiency and cost reduction initiatives intended to improve our profitability and to respond to changes impacting our business and industry. These initiatives include relocating manufacturing to lower cost regions, working with our material suppliers to lower costs, product design and manufacturing improvements, personnel reductions and voluntary retirement programs, and strategically planning capital expenditures and development activities. In the past we have recorded net restructuring charges to cover costs associated with our cost reduction initiatives involving restructuring. These costs have been primarily composed of employee separation costs, including severance payments, and asset impairments or losses from disposal. We also undertake restructuring activities and programs to improve our cost structure in connection with our business acquisitions, which can result in significant charges, including charges for severance payments to terminated employees and asset impairment charges.

We cannot assure you that our efficiency and cost reduction initiatives will be successfully or timely implemented, or that they will materially and positively impact our profitability. Because our initiatives involve changes to many aspects of our business, the associated cost reductions could adversely impact productivity and sales to an extent we have not anticipated. In addition, our ability to complete our efficiency and cost-savings initiatives and achieve the anticipated benefits within the expected time frame is subject to estimates and assumptions and may vary materially from our expectations, including as a result of factors that are beyond our control. Furthermore, our efforts to improve the efficiencies of our business operations and improve growth may not be successful. Even if we fully execute and implement these activities and they generate the anticipated cost savings, there may be other unforeseeable and unintended consequences that could materially adversely impact our profitability and business, including unintended employee attrition or harm to our competitive position. To the extent that we do not achieve the profitability enhancement or other benefits of our efficiency and cost reduction initiatives that we anticipate, our results of operations may be materially adversely effected.

Our international operations may be adversely affected by actions taken by foreign governments or other forces or events over which we may have no control.

We currently have significant manufacturing and/or distribution facilities outside of the United States, in Argentina, Australia, Belgium, Brazil, Bulgaria, Canada, the Czech Republic, France, Germany, India, Italy, Malaysia, Mexico, the People’s Republic of China (“PRC”), Poland, Spain, Switzerland, Tunisia and the United Kingdom. Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, including in countries with political and economic instability or uncertainty. This includes, for example, the uncertainty related to the United Kingdom’s withdrawal from the European Union (commonly known as “Brexit”). Some countries have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than others.

Our business could be negatively impacted by adverse fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products. Operating in different regions and countries exposes us to a number of risks, including:

- multiple and potentially conflicting laws, regulations and policies that are subject to change;
- imposition of currency restrictions, restrictions on repatriation of earnings or other restraints imposition of burdensome tariffs or quotas;
- changes in trade agreements;
- imposition of new or additional trade and economic sanctions laws imposed by the U.S. or foreign governments;
- war or terrorist acts; and
- political and economic instability or civil unrest that may severely disrupt economic activity in affected countries.

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The occurrence of one or more of these events may negatively impact our business, results of operations and financial condition.

Our failure to introduce new products and product enhancements and broad market acceptance of new technologies introduced by our competitors could adversely affect our business.

Many new energy storage technologies have been introduced over the past several years. For certain important and growing markets, such as aerospace and defense, lithium-based battery technologies have a large and growing market share. Our ability to achieve significant and sustained penetration of key developing markets, including aerospace and defense, will depend upon our success in developing or acquiring these and other technologies, either independently, through joint ventures or through acquisitions. If we fail to develop or acquire, and manufacture and sell, products that satisfy our customers' demands, or we fail to respond effectively to new product announcements by our competitors by quickly introducing competitive products, then market acceptance of our products could be reduced and our business could be adversely affected. We cannot assure you that our portfolio of primarily lead-acid products will remain competitive with products based on new technologies.

We may not be able to adequately protect our proprietary intellectual property and technology.

We rely on a combination of copyright, trademark, patent and trade secret laws, non-disclosure agreements and other confidentiality procedures and contractual provisions to establish, protect and maintain our proprietary intellectual property and technology and other confidential information. Certain of these technologies, especially TPPL technology, are important to our business and are not protected by patents. Despite our efforts to protect our proprietary intellectual property and technology and other confidential information, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property and proprietary technologies. If we are unable to protect our intellectual property and technology, we may lose any technological advantage we currently enjoy and may be required to take an impairment charge with respect to the carrying value of such intellectual property or goodwill established in connection with the acquisition thereof. In either case, our operating results and net income may be adversely affected.

Relocation of our customers' operations could adversely affect our business.

The trend by a number of our North American and Western European customers to move manufacturing operations and expand their businesses in faster growing and low labor-cost markets may have an adverse impact on our business. As our customers in traditional manufacturing-based industries seek to move their manufacturing operations to these locations, there is a risk that these customers will source their energy storage products from competitors located in those territories and will cease or reduce the purchase of products from our manufacturing plants. We cannot assure you that we will be able to compete effectively with manufacturing operations of energy storage products in those territories, whether by establishing or expanding our manufacturing operations in those lower-cost territories or acquiring existing manufacturers.

Quality problems with our products could harm our reputation and erode our competitive position.

The success of our business will depend upon the quality of our products and our relationships with customers. In the event that our products fail to meet our customers' standards, our reputation could be harmed, which would adversely affect our marketing and sales efforts. We cannot assure you that our customers will not experience quality problems with our products.

We offer our products under a variety of brand names, the protection of which is important to our reputation for quality in the consumer marketplace.

We rely upon a combination of trademark, licensing and contractual covenants to establish and protect the brand names of our products. We have registered many of our trademarks in the U.S. Patent and Trademark Office and in other countries. In many market segments, our reputation is closely related to our brand names. Monitoring unauthorized use of our brand names is difficult, and we cannot be certain that the steps we have taken will prevent their unauthorized use, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the U.S. We cannot assure you that our brand names will not be misappropriated or utilized without our consent or that such actions will not have a material adverse effect on our reputation and on our results of operations.

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We may fail to implement our plans to make acquisitions or successfully integrate them into our operations.

As part of our business strategy, we have grown, and plan to continue growing, by acquiring other product lines, technologies or facilities that complement or expand our existing business. There is significant competition for acquisition targets in the industrial battery industry. We may not be able to identify suitable acquisition candidates or negotiate attractive terms. In addition, we may have difficulty obtaining the financing necessary to complete transactions we pursue. In that regard, our credit facilities restrict the amount of additional indebtedness that we may incur to finance acquisitions and place other restrictions on our ability to make acquisitions. Exceeding any of these restrictions would require the consent of our lenders. We may be unable to successfully integrate any assets, liabilities, customers, systems and management personnel we acquire into our operations and we may not be able to realize related revenue synergies and cost savings within expected time frames. Our failure to execute our acquisition strategy could have a material adverse effect on our business. We cannot assure you that our acquisition strategy will be successful or that we will be able to successfully integrate acquisitions we do make.

Any acquisitions that we complete may dilute stockholder ownership interests in EnerSys, may have adverse effects on our financial condition and results of operations and may cause unanticipated liabilities.

Future acquisitions may involve the issuance of our equity securities as payment, in part or in full, for the businesses or assets acquired. Any future issuances of equity securities would dilute stockholder ownership interests. In addition, future acquisitions might not increase, and may even decrease, our earnings or earnings per share and the benefits derived by us from an acquisition might not outweigh or might not exceed the dilutive effect of the acquisition. We also may incur additional debt or suffer adverse tax and accounting consequences in connection with any future acquisitions.

The failure or security breach of critical computer systems could seriously affect our sales and operations.

We operate a number of critical computer systems throughout our business that can fail for a variety of reasons. If such a failure were to occur, we may not be able to sufficiently recover from the failure in time to avoid the loss of data or any adverse impact on certain of our operations that are dependent on such systems. This could result in lost sales and the inefficient operation of our facilities for the duration of such a failure.

In addition, our computer systems are essential for the exchange of information both within the company and in communicating with third parties. Despite our efforts to protect the integrity of our systems and network as well as sensitive, confidential or personal data or information, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, theft, misplaced or lost data, programming and/or human errors that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness, and results of operations.

Our ability to maintain adequate credit facilities.

Our ability to continue our ongoing business operations and fund future growth depends on our ability to maintain adequate credit facilities and to comply with the financial and other covenants in such credit facilities or to secure alternative sources of financing. However, such credit facilities or alternate financing may not be available or, if available, may not be on terms favorable to us. If we do not have adequate access to credit, we may be unable to refinance our existing borrowings and credit facilities when they mature and to fund future acquisitions, and this may reduce our flexibility in responding to changing industry conditions.

Our indebtedness could adversely affect our financial condition and results of operations.

As of March 31, 2018, we had $598.0 million of total consolidated debt (including capital lease obligations). This level of debt could:

- increase our vulnerability to adverse general economic and industry conditions, including interest rate fluctuations, because a portion of our borrowings bear, and will continue to bear, interest at floating rates;
- require us to dedicate a substantial portion of our cash flow from operations to debt service payments, which would reduce the availability of our cash to fund working capital, capital expenditures or other general corporate purposes, including acquisitions;
- limit our flexibility in planning for, or reacting to, changes in our business and industry;

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- restrict our ability to introduce new products or new technologies or exploit business opportunities;
- place us at a disadvantage compared with competitors that have proportionately less debt;
- limit our ability to borrow additional funds in the future, if we need them, due to financial and restrictive covenants in our debt agreements; and
- have a material adverse effect on us if we fail to comply with the financial and restrictive covenants in our debt agreements.

There can be no assurance that we will continue to declare cash dividends at all or in any particular amounts.

During fiscal 2018, we announced the declaration of a quarterly cash dividend of $0.175 per share of common stock for quarters ended July 2, 2017, October 1, 2017, December 31, 2017 and March 31, 2018. On May 16, 2018, we announced a fiscal 2019 first quarter cash dividend of $0.175 per share of common stock. Future payment of a regular quarterly cash dividend on our common shares will be subject to, among other things, our results of operations, cash balances and future cash requirements, financial condition, statutory requirements of Delaware law, compliance with the terms of existing and future indebtedness and credit facilities, and other factors that the Board of Directors may deem relevant. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. A reduction in or elimination of our dividend payments could have a negative effect on our share price.

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value. Share repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.

Our board of directors has authorized a share repurchase program of up to $100 million of our common stock. Although our board of directors has authorized this share repurchase program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. We cannot guarantee that the program will be fully consummated or that it will enhance long-term stockholder value. The program could affect the trading price of our stock and increase volatility, and any announcement of a termination of this program may result in a decrease in the trading price of our stock. In addition, this program could diminish our cash reserves.

We depend on our senior management team and other key employees, and significant attrition within our management team or unsuccessful succession planning could adversely affect our business.

Our success depends in part on our ability to attract, retain and motivate senior management and other key employees. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, competitors’ hiring practices, cost reduction activities, and the effectiveness of our compensation programs. Competition for qualified personnel can be very intense. We must continue to recruit, retain and motivate senior management and other key employees sufficient to maintain our current business and support our future projects. We are vulnerable to attrition among our current senior management team and other key employees. A loss of any such personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations. In addition, if we are unsuccessful in our succession planning efforts, the continuity of our business and results of operations could be adversely affected.

We may have exposure to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate operating structure and intercompany arrangements, including the manner in which we operate our business, develop, value, manage, protect, and use our intellectual property and the valuations of our intercompany transactions. We may also be subject to additional indirect or non-income taxes. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions are aggressively interpreting their laws in new ways in an effort to raise additional tax revenue from multi-national companies, like us. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position, results of operations, and cash flows. Although we believe that our provision for income taxes is reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. In addition, our future income tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, or accounting principles.

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Changes in tax laws or tax rulings could materially affect our financial position, results of operations, and cash flows.

The income and non-income tax regimes we are subject to or operate under are unsettled and may be subject to significant change. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could materially affect our financial position, results of operations, and cash flows. For example, changes to U.S. tax laws enacted in December 2017 had a significant impact on our tax obligations and effective tax rate for the third quarter and full year of fiscal 2018. In addition, many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could significantly increase our tax obligations in many countries where we do business or require us to change the manner in which we operate our business. The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Shifting Project, and issued in 2015, and is expected to continue to issue, guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. The European Commission has conducted investigations in multiple countries focusing on whether local country tax rulings or tax legislation provides preferential tax treatment that violates European Union state aid rules and concluded that certain countries, including Ireland, have provided illegal state aid in certain cases. These investigations may result in changes to the tax treatment of our foreign operations. Due to the large and expanding scale of our international business activities, many of these types of changes to the taxation of our activities could increase our worldwide effective tax rate and harm our financial position, results of operations, and cash flows.

Uncertainties in the interpretation and application of the 2017 Tax Cuts and Jobs Act could materially affect our tax obligations and effective tax rate.

The 2017 Tax Cuts and Jobs Act (“Tax Act”) was enacted on December 22, 2017, and significantly affected U.S. tax law by changing how the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. The Tax Act requires complex computations not previously provided in the U.S. tax law. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the Tax Act and the accounting for such provisions require accumulation of information not previously required or regularly produced. As a result, we have provided a provisional estimate on the effect of the Tax Act in our financial statements. As additional regulatory guidance is issued by the applicable taxing authorities, as accounting treatment is clarified, as we perform additional analysis on the application of the law, and as we refine estimates in calculating the effect, our final analysis, which will be recorded in the period completed, may be different from our current provisional amounts, which could materially affect our tax obligations and effective tax rate.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

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ITEM 2.*PROPERTIES*

The Company's worldwide headquarters is located in Reading, Pennsylvania, U.S.A. Geographic headquarters for our Americas, EMEA and Asia segments are located in Reading, Pennsylvania, U.S.A., Zug, Switzerland and Singapore, respectively. The Company owns approximately 80% of its manufacturing facilities and distribution centers worldwide. The following sets forth the Company's principal owned or leased facilities by business segment:

Americas: Sylmar, California; Longmont, Colorado; Tampa, Florida; Hays, Kansas; Richmond, Kentucky; Warrensburg, Missouri; Horsham, Pennsylvania; Sumter, South Carolina; Ooltewah, Tennessee and Spokane, Washington in the United States; Monterrey and Tijuana in Mexico; Buenos Aires, Argentina and São Paulo, in Brazil.

EMEA: Targovishte, Bulgaria; Hostomice, Czech Republic; Arras, France; Hagen and Zwickau in Germany; Bielsko-Biala, Poland; Newport and Culham in the United Kingdom; and Tunis, Tunisia.

Asia: Chongqing and Yangzhou in the PRC and Andhra Pradesh in India.

We consider our plants and facilities, whether owned or leased, to be in satisfactory condition and adequate to meet the needs of our current businesses and projected growth. Information as to material lease commitments is included in Note 9 - Leases to the Consolidated Financial Statements.

ITEM 3.*LEGAL PROCEEDINGS*

From time to time, we are involved in litigation incidental to the conduct of our business. See Litigation and Other Legal Matters in Note 18 - Commitments, Contingencies and Litigation to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4.*MINE SAFETY DISCLOSURES*

Not applicable.

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PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Market Information

The Company's common stock has been listed on the New York Stock Exchange under the symbol "ENS" since it began trading on July 30, 2004. Prior to that time, there had been no public market for our common stock. The following table sets forth, on a per share basis for the periods presented, the range of high, low and closing prices of the Company's common stock.

Quarter Ended	High Price	Low Price	Closing Price	Dividends Declared
March 31, 2018	$76.73	$62.85	$69.37	$0.175
December 31, 2017	71.37	65.47	69.63	0.175
October 1, 2017	74.75	61.33	69.17	0.175
July 2, 2017	84.74	71.75	72.45	0.175
March 31, 2017	$81.63	$73.98	$78.94	$0.175
January 1, 2017	83.70	63.10	78.10	0.175
October 2, 2016	73.12	58.35	69.19	0.175
July 3, 2016	67.94	52.37	60.66	0.175

Holders of Record

As of May 25, 2018, there were approximately 366 record holders of common stock of the Company. Because many of these shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders.

Recent Sales of Unregistered Securities

During the fourth quarter of fiscal 2018, we did not issue any unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the number of shares of common stock we purchased from participants in our equity incentive plans as well as repurchases of common stock authorized by the Board of Directors. As provided by the Company's equity incentive plans, (a) vested options outstanding may be exercised through surrender to the Company of option shares or vested options outstanding under the Company's equity incentive plans to satisfy the applicable aggregate exercise price (and any withholding tax) required to be paid upon such exercise and (b) the withholding tax requirements related to the vesting and settlement of equity awards may be satisfied by the surrender of shares of the Company's common stock.

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Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs(1)(2)
January 1, 2018 - January 28, 2018	216,738	$ 92.28	216,738	$ 100,000,000
January 29, 2018 - February 25, 2018	4,279	71.22	—	100,000,000
February 26, 2018 - March 31, 2018	—	—	—	100,000,000
Total	221,017	$ 91.87	216,738	

(1) The Company's Board of Directors has authorized the Company to repurchase up to such number of shares as shall equal the dilutive effects of any equity based award granted during such fiscal year under the 2017 Equity Incentive Plan and the number of shares exercised through stock option awards during such fiscal year. These amounted to 4,279 shares, repurchased at an average price of $71.22.

(2) On November 8, 2017, the Company announced the establishment of a $100 million stock repurchase authorization, with no expiration date. The authorization is in addition to the existing stock repurchase programs.

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STOCK PERFORMANCE GRAPH

The following graph compares the changes in cumulative total returns on EnerSys' common stock with the changes in cumulative total returns of the New York Stock Exchange Composite Index, a broad equity market index, and the total return on a selected peer group index. The peer group selected is based on the standard industrial classification codes ("SIC Codes") established by the U.S. government. The index chosen was "Miscellaneous Electrical Equipment and Suppliers" and comprises all publicly traded companies having the same three-digit SIC Code (369) as EnerSys.

The graph was prepared assuming that $100 was invested in EnerSys' common stock, the New York Stock Exchange Composite Index and the peer group (duly updated for changes) on March 31, 2013.

*$100 invested on March 31, 2013 in stock or index, including reinvestment of dividends.

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ITEM 6. ***SELECTED FINANCIAL DATA***

	Fiscal Year Ended March 31,				
	2018	2017	2016	2015	2014
	(In thousands, except share and per share data)				
Consolidated Statements of Income:					
Net sales	$2,581,891	$2,367,149	$2,316,249	$2,505,512	$2,474,433
Cost of goods sold	1,921,494	1,714,367	1,704,472	1,864,601	1,844,813
Inventory adjustment relating to exit activities	3,457	2,157	—	—	—
Gross profit	656,940	650,625	611,777	640,911	629,620
Operating expenses	382,077	369,863	352,767	358,381	344,421
Restructuring and other exit charges	5,481	7,160	12,978	11,436	27,326
Impairment of goodwill	—	12,216	31,411	20,371	5,179
Impairment of indefinite-lived intangibles and fixed assets	—	1,800	4,841	3,575	—
Legal proceedings charge / (reversal of legal accrual, net of fees)	—	23,725	3,201	(16,233)	58,184
Gain on sale of facility	—	—	(3,420)	—	—
Operating earnings	269,382	235,861	209,999	263,381	194,510
Interest expense	25,001	22,197	22,343	19,644	17,105
Other (income) expense, net	6,055	969	5,719	(5,602)	13,658
Earnings before income taxes	238,326	212,695	181,937	249,339	163,747
Income tax expense	118,493	54,472	50,113	67,814	16,980
Net earnings	119,833	158,223	131,824	181,525	146,767
Net earnings (losses) attributable to noncontrolling interests	239	(1,991)	(4,326)	337	(3,561)
Net earnings attributable to EnerSys stockholders	$119,594	$160,214	$136,150	$181,188	$150,328
Net earnings per common share attributable to EnerSys stockholders:					
Basic	$2.81	$3.69	$3.08	$3.97	$3.17
Diluted	$2.77	$3.64	$2.99	$3.77	$3.02
Weighted-average number of common shares outstanding:					
Basic	42,612,036	43,389,333	44,276,713	45,606,317	47,473,690
Diluted	43,119,856	44,012,543	45,474,130	48,052,729	49,788,155

	Fiscal Year Ended March 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Consolidated cash flow data:					
Net cash provided by operating activities	$211,048	$246,030	$307,571	$194,471	$193,621
Net cash used in investing activities	(72,357)	(61,833)	(80,923)	(59,616)	(232,005)
Net cash (used in) provided by financing activities	(166,888)	(62,542)	(105,729)	(59,313)	21,562
Other operating data:					
Capital expenditures	69,832	50,072	55,880	63,625	61,995

	As of March 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Consolidated balance sheet data:					

Cash and cash equivalents	$522,118	$500,329	$397,307	$268,921	$240,103
Working capital	1,048,057	951,484	845,068	769,881	719,297
Total assets	2,486,925	2,293,029	2,214,488	2,136,555	2,318,959
Total debt, including capital leases, excluding discount on the Convertible Notes (1)	598,020	606,133	628,631	513,213	319,401
Total EnerSys stockholders' equity	1,195,675	1,103,456	1,013,131	1,038,900	1,246,402

(1) Convertible Notes as defined under *Liquidity and Capital Resources* in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion and analysis of our results of operations and financial condition for the fiscal years ended March 31, 2018, 2017 and 2016, should be read in conjunction with our audited consolidated financial statements and the notes to those statements included in Item 8. Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, opinions, expectations, anticipations and intentions and beliefs. Actual results and the timing of events could differ materially from those anticipated in those forward-looking statements as a result of a number of factors. See "Cautionary Note Regarding Forward-Looking Statements," "Business" and "Risk Factors," sections elsewhere in this Annual Report on Form 10-K. In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered "non-GAAP financial measures" under the SEC rules. These rules require supplemental explanation and reconciliation, which is provided in this Annual Report on Form 10-K.

EnerSys' management uses the non-GAAP measures, EBITDA and adjusted EBITDA, in its computation of compliance with loan covenants. These measures, as used by EnerSys, adjust net earnings determined in accordance with GAAP for interest, taxes, depreciation and amortization, and certain charges or credits as permitted by our credit agreements, that were recorded during the periods presented.

EnerSys' management uses the non-GAAP measures, "primary working capital" and "primary working capital percentage" (see definition in "Liquidity and Capital Resources" below) along with capital expenditures, in its evaluation of business segment cash flow and financial position performance.

These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for cash flow or operating earnings determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. This supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to operating earnings determined in accordance with GAAP.

Overview

EnerSys (the "Company," "we," or "us") is the world's largest manufacturer, marketer and distributor of industrial batteries. We also manufacture, market and distribute products such as battery chargers, power equipment, battery accessories, and outdoor cabinet enclosures. Additionally, we provide related aftermarket and customer-support services for our products. We market our products globally to over 10,000 customers in more than 100 countries through a network of distributors, independent representatives and our internal sales force.

We operate and manage our business in three geographic regions of the world—Americas, EMEA and Asia, as described below. Our business is highly decentralized with manufacturing locations throughout the world. More than half of our manufacturing capacity is located outside the United States, and approximately 50% of our net sales were generated outside the United States. The Company has three reportable business segments based on geographic regions, defined as follows:

- **Americas**, which includes North and South America, with our segment headquarters in Reading, Pennsylvania, U.S.A.;
- **EMEA**, which includes Europe, the Middle East and Africa, with our segment headquarters in Zug, Switzerland; and
- **Asia**, which includes Asia, Australia and Oceania, with our segment headquarters in Singapore.

We evaluate business segment performance based primarily upon operating earnings exclusive of highlighted items. Highlighted items are those that the Company deems are not indicative of ongoing operating results, including those charges that the Company incurs as a result of restructuring activities and those charges and credits that are not directly related to ongoing business segment performance. All corporate and centrally incurred costs are allocated to the business segments based principally on net sales. We evaluate business segment cash flow and financial position performance based primarily upon capital expenditures and primary working capital levels (see definition of primary working capital in "Liquidity and Capital Resources" below). Although we monitor the three elements of primary working capital (receivables, inventory and payables), our primary focus is on the total amount due to the significant impact it has on our cash flow.

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Our management structure, financial reporting systems, and associated internal controls and procedures, are all consistent with our three geographic business segments. We report on a March 31 fiscal year-end. Our financial results are largely driven by the following factors:

- global economic conditions and general cyclical patterns of the industries in which our customers operate;
- changes in our selling prices and, in periods when our product costs increase, our ability to raise our selling prices to pass such cost increases through to our customers;
- the extent to which we are able to efficiently utilize our global manufacturing facilities and optimize our capacity;
- the extent to which we can control our fixed and variable costs, including those for our raw materials, manufacturing, distribution and operating activities;
- changes in our level of debt and changes in the variable interest rates under our credit facilities; and
- the size and number of acquisitions and our ability to achieve their intended benefits.

We have two primary product lines: reserve power and motive power products. Net sales classifications by product line are as follows:

- **Reserve power products** are used for backup power for the continuous operation of critical applications in telecommunications systems, uninterruptible power systems, or “UPS” applications for computer and computer-controlled systems, and other specialty power applications, including medical and security systems, premium starting, lighting and ignition applications, in switchgear, electrical control systems used in electric utilities, large-scale energy storage, energy pipelines, in commercial aircraft, satellites, military aircraft, submarines, ships and tactical vehicles. Reserve power products also include thermally managed cabinets and enclosures for electronic equipment and batteries.

- **Motive power products** are used to provide power for electric industrial forklifts used in manufacturing, warehousing and other material handling applications, as well as mining equipment, diesel locomotive starting and other rail equipment.

Current Market Conditions

Economic Climate

Recent indicators continue to suggest a mixed trend in economic activity among the different geographical regions. North America and EMEA are experiencing moderate economic growth. Our Asia region continues to grow faster than any other region in which we do business.

Volatility of Commodities and Foreign Currencies

Our most significant commodity and foreign currency exposures are related to lead and the euro, respectively. Historically, volatility of commodity costs and foreign currency exchange rates have caused large swings in our production costs. As the global economic climate changes, we anticipate that our commodity costs and foreign currency exposures may continue to fluctuate as they have in the past several years. Over the past year, on a consolidated basis, we have experienced rising commodity costs and a weaker U.S. dollar.

Customer Pricing

Our selling prices rose during the past year to offset the rising cost of commodities. Approximately 30% of our revenue is currently subject to agreements that adjust pricing to a market-based index for lead. During fiscal 2018, we increased our selling prices in response to increased commodity costs.

Liquidity and Capital Resources

We believe that our financial position is strong, and we have substantial liquidity with $522 million of available cash and cash equivalents and available and undrawn credit lines of approximately $613 million at March 31, 2018 to cover short-term liquidity requirements and anticipated growth in the foreseeable future.

In the second quarter of fiscal 2018, we entered into a new credit facility (“2017 Credit Facility”) that comprised a $600 million senior secured revolving credit facility (“2017 Revolver”) and a $150 million senior secured term loan (“2017 Term Loan”) with a maturity date of September 30, 2022. We repaid our then existing facility (“2011 Credit Facility”), which comprised a $500 million senior secured revolving credit facility (“2011 Revolver”) and a $150 million senior secured incremental term loan (the “2011 Term Loan”) with the proceeds of the new facility. We believe that the 2017 Credit Facility, which is committed through September 2022 as long as we comply with its covenants and conditions, provides us with sufficient liquidity to fund acquisitions and stock repurchase programs.

Current market conditions related to our liquidity and capital resources are favorable. We believe current conditions remain favorable for the Company to have continued positive cash flow from operations that, along with available cash and cash equivalents and our undrawn lines of credit, will be sufficient to fund our capital expenditures, acquisitions and other investments for growth.

In fiscal 2016, we issued $300 million of 5.00% Senior Notes due 2023 (the “Notes”), the net proceeds used primarily to fund the payment of principal and accreted interest outstanding on the senior 3.375% convertible notes due 2038 (the “Convertible Notes”) that were settled in fiscal 2016.

Subsequent to the extinguishment of the Convertible Notes and the repayment of the 2011 Credit Facility, other than the Notes and the 2017 Credit Facility, we have no other significant amount of long-term debt maturing in the near future.

In fiscal 2018, we repurchased $121 million of our common stock through an accelerated share repurchase program (“ASR”) with a major financial institution and through open market purchases. Share repurchases and a decline in our share price helped offset the dilutive impact of stock awards. There were no repurchases of common stock in fiscal 2017.

A substantial majority of the Company’s cash and investments are held by foreign subsidiaries and are considered to be indefinitely reinvested and expected to be utilized to fund local operating activities, capital expenditure requirements and acquisitions. The Company believes that it has sufficient sources of domestic and foreign liquidity.

Cost Savings Initiatives

Cost savings programs remain a continuous element of our business strategy and are directed primarily at further reductions in plant manufacturing (labor and overhead), raw material costs and our operating expenses (primarily selling, general and administrative). In order to realize cost savings benefits for a majority of these initiatives, costs are incurred either in the form of capital expenditures, funding the cash obligations of previously recorded restructuring expenses or current period expenses.

During fiscal 2016, we announced restructuring programs related to improving operational efficiencies in EMEA and the Americas. These actions were completed in fiscal 2017, resulting in the reduction of approximately 240 employees and the closure of our Cleveland, Ohio, U.S.A., manufacturing facility. Approximately $3.0 million pre-tax savings have been reflected in the fiscal 2016 results, and an additional pre-tax savings of approximately $6.0 million have been reflected in the fiscal 2017 results. Fiscal 2018 results included an additional pre-tax savings of approximately $1.3 million.

During fiscal 2017, we announced restructuring programs to improve efficiencies related to our motive power production in EMEA. These actions resulted in the reduction of approximately 45 employees. Approximately $3.5 million pre-tax savings have been reflected in our fiscal 2018 results.

During fiscal 2018, we announced a restructuring program to improve efficiencies of our general operations in the Americas. This action resulted in the reduction of approximately 100 employees and $2.2 million of pre-tax savings in our fiscal 2018 results.

In January 2017, we started our Operational Excellence program, referred to as the EnerSys Operating System, or EOS. Currently, EOS engages over 2,700 employees world-wide who impact approximately $700 million in cost of production. EOS serves as our Continuous Improvement engine. During fiscal 2018, we were able to fund our investment in new product development and digital core with savings of nearly $25 million, which included the aforementioned $7.0 million savings in fiscal 2018 from restructuring programs. We remain on pace with our global deployment of EOS, and constantly evaluate the return on investment to ensure we achieve our targeted 200 basis point improvement by end of fiscal 2021.

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Critical Accounting Policies and Estimates

Our significant accounting policies are described in Notes to Consolidated Financial Statements in Item 8. In preparing our financial statements, management is required to make estimates and assumptions that, among other things, affect the reported amounts in the Consolidated Financial Statements and accompanying notes. These estimates and assumptions are most significant where they involve levels of subjectivity and judgment necessary to account for highly uncertain matters or matters susceptible to change, and where they can have a material impact on our financial condition and operating performance. We discuss below the more significant estimates and related assumptions used in the preparation of our consolidated financial statements. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

Revenue Recognition

We recognize revenue when the earnings process is complete. This occurs when risk and title transfers, collectibility is reasonably assured and pricing is fixed or determinable. Shipment terms to our battery product customers are either shipping point or destination and do not differ significantly between our business segments. Accordingly, revenue is recognized when risk and title is transferred to the customer. Amounts invoiced to customers for shipping and handling are classified as revenue. Taxes on revenue producing transactions are not included in net sales.

We recognize revenue from the service of reserve power and motive power products when the respective services are performed.

Management believes that the accounting estimates related to revenue recognition are critical accounting estimates because they require reasonable assurance of collection of revenue proceeds and completion of all performance obligations. Also, revenues are recorded net of provisions for sales discounts and returns, which are established at the time of sale. These estimates are based on our past experience.

Asset Impairment Determinations

We test for the impairment of our goodwill and indefinite-lived trademarks at least annually and whenever events or circumstances occur indicating that a possible impairment has been incurred.

We perform our annual goodwill impairment test on the first day of our fourth quarter for each of our reporting units based on the income approach, also known as the discounted cash flow ("DCF") method, which utilizes the present value of future cash flows to estimate fair value. We also use the market approach, which utilizes market price data of companies engaged in the same or a similar line of business as that of our company, to estimate fair value. A reconciliation of the two methods is performed to assess the reasonableness of fair value of each of the reporting units.

The future cash flows used under the DCF method are derived from estimates of future revenues, operating income, working capital requirements and capital expenditures, which in turn reflect specific global, industry and market conditions. The discount rate developed for each of the reporting units is based on data and factors relevant to the economies in which the business operates and other risks associated with those cash flows, including the potential variability in the amount and timing of the cash flows. A terminal growth rate is applied to the final year of the projected period and reflects our estimate of stable growth to perpetuity. We then calculate the present value of the respective cash flows for each reporting unit to arrive at the fair value using the income approach and then determine the appropriate weighting between the fair value estimated using the income approach and the fair value estimated using the market approach. Finally, we compare the estimated fair value of each reporting unit to its respective carrying value in order to determine if the goodwill assigned to each reporting unit is potentially impaired. In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, "Intangibles-Goodwill and Other

(Topic 350): Simplifying the Accounting for Goodwill Impairment", which eliminated Step 2 from the goodwill impairment test. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This update is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company was able to early adopt ASU 2017-04 in fiscal 2017 and eliminated Step 2 from the goodwill impairment test conducted in fiscal 2017.

Significant assumptions used include management's estimates of future growth rates, the amount and timing of future operating cash flows, capital expenditures, discount rates, as well as market and industry conditions and relevant comparable company multiples for the market approach. Assumptions utilized are highly judgmental, especially given the role technology plays in driving the demand for products in the telecommunications and aerospace markets.

The indefinite-lived trademarks are tested for impairment by comparing the carrying value to the fair value based on current revenue projections of the related operations, under the relief from royalty method. Any excess carrying value over the amount of fair value is recognized as impairment. Any impairment would be recognized in full in the reporting period in which it has been identified.

With respect to our other long-lived assets other than goodwill and indefinite-lived trademarks, we test for impairment when indicators of impairment are present. An asset is considered impaired when the undiscounted estimated net cash flows expected to be generated by the asset are less than its carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset.

Litigation and Claims

From time to time, the Company has been or may be a party to various legal actions and investigations including, among others, employment matters, compliance with government regulations, federal and state employment laws, including wage and hour laws, contractual disputes and other matters, including matters arising in the ordinary course of business. These claims may be brought by, among others, governments, customers, suppliers and employees. Management considers the measurement of litigation reserves as a critical accounting estimate because of the significant uncertainty in some cases relating to the outcome of potential claims or litigation and the difficulty of predicting the likelihood and range of potential liability involved, coupled with the material impact on our results of operations that could result from litigation or other claims.

In determining legal reserves, management considers, among other inputs:

- interpretation of contractual rights and obligations;
- the status of government regulatory initiatives, interpretations and investigations;
- the status of settlement negotiations;
- prior experience with similar types of claims;
- whether there is available insurance coverage; and
- advice of outside counsel.

For certain matters, management is able to estimate a range of losses. When a loss is probable, but no amount of loss within a range of outcomes is more likely than other any other outcome, management will record a liability based on the low end of the estimated range. Additionally, management will evaluate whether losses in excess of amounts accrued are reasonably possible, and will make disclosure of those matters based on an assessment of the materiality of those addition possible losses.

Environmental Loss Contingencies

Accruals for environmental loss contingencies (i.e., environmental reserves) are recorded when it is probable that a liability has been incurred and the amount can reasonably be estimated. Management views the measurement of environmental reserves as a critical accounting estimate because of the considerable uncertainty surrounding estimation, including the need to forecast well into the future. From time to time, we may be involved in legal proceedings under federal, state and local, as well as international environmental laws in connection with our operations and companies that we have acquired. The estimation of environmental reserves is based on the evaluation of currently available information, prior experience in the remediation of contaminated sites and assumptions with respect to government regulations and enforcement activity, changes in remediation technology and practices, and financial obligations and creditworthiness of other responsible parties and insurers.

Warranty

We record a warranty reserve for possible claims against our product warranties, which generally run for a period ranging from one to twenty years for our reserve power batteries and for a period ranging from one to seven years for our motive power batteries. The assessment of the adequacy of the reserve includes a review of open claims and historical experience.

Management believes that the accounting estimate related to the warranty reserve is a critical accounting estimate because the underlying assumptions used for the reserve can change from time to time and warranty claims could potentially have a material impact on our results of operations.

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Allowance for Doubtful Accounts

We encounter risks associated with sales and the collection of the associated accounts receivable. We record a provision for accounts receivable that are considered to be uncollectible. In order to calculate the appropriate provision, management analyzes the creditworthiness of specific customers and the aging of customer balances. Management also considers general and specific industry economic conditions, industry concentration and contractual rights and obligations.

Management believes that the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because the underlying assumptions used for the allowance can change from time to time and uncollectible accounts could potentially have a material impact on our results of operations.

Retirement Plans

We use certain economic and demographic assumptions in the calculation of the actuarial valuation of liabilities associated with our defined benefit plans. These assumptions include the discount rate, expected long-term rates of return on assets and rates of increase in compensation levels. Changes in these assumptions can result in changes to the pension expense and recorded liabilities. Management reviews these assumptions at least annually. We use independent actuaries to assist us in formulating assumptions and making estimates. These assumptions are updated periodically to reflect the actual experience and expectations on a plan-specific basis, as appropriate.

For benefit plans which are funded, we establish strategic asset allocation percentage targets and appropriate benchmarks for significant asset classes with the aim of achieving a prudent balance between return and risk. We set the expected long-term rate of return based on the expected long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this rate, we consider historical and expected returns for the asset classes in which the plans are invested, advice from pension consultants and investment advisors, and current economic and capital market conditions. The expected return on plan assets is incorporated into the computation of pension expense. The difference between this expected return and the actual return on plan assets is deferred and will affect future net periodic pension costs through subsequent amortization.

We believe that the current assumptions used to estimate plan obligations and annual expense are appropriate in the current economic environment. However, if economic conditions change materially, we may change our assumptions, and the resulting change could have a material impact on the Consolidated Statements of Income and on the Consolidated Balance Sheets.

Equity-Based Compensation

We recognize compensation cost relating to equity-based payment transactions by using a fair-value measurement method whereby all equity-based payments to employees, including grants of restricted stock units, stock options and market condition-based awards are recognized as compensation expense based on fair value at grant date over the requisite service period of the awards. We determine the fair value of restricted stock units based on the quoted market price of our common stock on the date of grant. The fair value of stock options is determined using the Black-Scholes option-pricing model, which uses both historical and current market data to estimate the fair value. The fair value of market condition-based awards is estimated at the date of grant using a binomial lattice model or Monte Carlo Simulation. All models incorporate various assumptions such as the risk-free interest rate, expected volatility, expected dividend yield and expected life of the awards. When estimating the requisite service period of the awards, we consider many related factors including types of awards, employee class, and historical experience. Actual results, and future changes in estimates of the requisite service period may differ substantially from our current estimates.

Income Taxes

Our effective tax rate is based on pretax income and statutory tax rates available in the various jurisdictions in which we operate. We account for income taxes in accordance with applicable guidance on accounting for income taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases on recorded assets and liabilities. Accounting guidance also requires that deferred tax assets be reduced by a valuation allowance, when it is more likely than not that a tax benefit will not be realized.

The recognition and measurement of a tax position is based on management's best judgment given the facts, circumstances and information available at the reporting date. We evaluate tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is greater than 50%

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likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in the financial statements. If the more likely than not threshold is not met in the period for which a tax position is taken, we may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

We evaluate, on a quarterly basis, our ability to realize deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.
To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period could be materially affected.

Results of Operations—Fiscal 2018 Compared to Fiscal 2017

The following table presents summary Consolidated Statement of Income data for fiscal year ended March 31, 2018, compared to fiscal year ended March 31, 2017:

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	$2,581.8	100.0%	$2,367.1	100.0 %	$214.7	9.1 %
Cost of goods sold	1,921.5	74.5	1,714.4	72.4	207.1	12.1
Inventory adjustment relating to exit activities - See Note 19	3.4	0.1	2.1	0.1	1.3	60.3
Gross profit	656.9	25.4	650.6	27.5	6.3	1.0
Operating expenses	382.1	14.8	369.9	15.6	12.2	3.3
Restructuring and other exit charges	5.5	0.2	7.1	0.3	(1.6)	(23.5)
Impairment of goodwill	—	—	12.2	0.5	(12.2)	NM
Impairment of indefinite-lived intangibles	—	—	1.8	0.1	(1.8)	NM
Legal proceedings charge	—	—	23.7	1.0	(23.7)	NM
Operating earnings	269.3	10.4	235.9	10.0	33.4	14.2
Interest expense	25.0	1.0	22.2	1.0	2.8	12.6
Other (income) expense, net	6.0	0.2	1.0	—	5.0	NM
Earnings before income taxes	238.3	9.2	212.7	9.0	25.6	12.1
Income tax expense	118.5	4.6	54.5	2.3	64.0	NM
Net earnings	119.8	4.6	158.2	6.7	(38.4)	(24.3)
Net earnings (losses) attributable to noncontrolling interests	0.2	—	(2.0)	(0.1)	2.2	NM
Net earnings attributable to EnerSys stockholders	$119.6	4.6 %	$160.2	6.8 %	$(40.6)	(25.4)%

NM = not meaningful

Overview

Our sales in fiscal 2018 were $2.6 billion, a 9% increase from prior year's sales. This increase was the result of a 4% increase in pricing, a 3% increase in organic volume and a 2% increase in foreign currency translation impact.

A discussion of specific fiscal 2018 versus fiscal 2017 operating results follows, including an analysis and discussion of the results of our reportable segments.

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Net Sales

Segment sales

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	% Net Sales	In Millions	% Net Sales	In Millions	%
Americas	$1,429.8	55.4 %	$1,332.3	56.3 %	$97.5	7.3 %
EMEA	849.5	32.9	763.1	32.2	86.4	11.3
Asia	302.5	11.7	271.7	11.5	30.8	11.3
Total net sales	$2,581.8	100.0%	$2,367.1	100.0%	$214.7	9.1 %

The Americas segment's net sales increased by $97.5 million or 7.3% in fiscal 2018, as compared to fiscal 2017, primarily due to a 4% increase in organic volume and a 3% increase in pricing.

The EMEA segment's net sales increased by $86.4 million or 11.3% in fiscal 2018, as compared to fiscal 2017, primarily due to a 7% increase in currency translation impact and a 5% increase in pricing, partially offset by a 1% decrease in organic volume.

The Asia segment's net sales increased by $30.8 million or 11.3% in fiscal 2018, as compared to fiscal 2017, primarily due to a 5% increase in organic volume, a 4% increase in pricing and a 2% increase in currency translation impact.

Product line sales

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Reserve power	$1,247.9	48.3 %	$1,142.2	48.3 %	$105.7	9.2 %
Motive power	1,333.9	51.7	1,224.9	51.7	109.0	8.9
Total net sales	$2,581.8	100.0%	$2,367.1	100.0%	$214.7	9.1 %

Sales in our reserve power products increased in fiscal 2018 by $105.7 million or 9.2% compared to the prior year, primarily due to a 4% increase in pricing, a 3% increase in organic volume and a 2% increase in currency translation impact.

Sales in our motive power products increased in fiscal 2018 by $109.0 million or 8.9% compared to the prior year, primarily due to a 4% increase in pricing, a 3% increase in currency translation impact and a 2% increase in organic volume.

Gross Profit

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Gross profit	$656.9	25.4 %	$650.6	27.5 %	$ 6.3	1.0 %

Gross profit increased $6.3 million or 1.0% in fiscal 2018 compared to fiscal 2017. Gross profit, as a percentage of net sales, decreased 210 basis points in fiscal 2018 compared to fiscal 2017. The decrease in the gross profit margin is primarily due to an increase in commodity costs of approximately $125 million, partially offset by increases in organic volume, cost savings and pricing.

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Operating Items

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	$382.1	14.8 %	$369.9	15.6 %	$12.2	3.3 %
Restructuring and other exit charges	5.5	0.2	7.1	0.3	(1.6)	(23.5)
Impairment of goodwill	—	—	12.2	0.5	(12.2)	NM
Impairment of indefinite-lived intangibles	—	—	1.8	0.1	(1.8)	NM
Legal proceedings charge	—	—	23.7	1.0	(23.7)	NM

NM = not meaningful

Operating Expenses

Operating expenses increased $12.2 million or 3.3% in fiscal 2018 from fiscal 2017 but decreased as a percentage of net sales by 80 basis points. The impact of foreign currency translation resulted in an increase of $6.1 million. Excluding this impact of the foreign currency translation, the increase in dollars was primarily due to our investment relating to the development of our digital core and new products, which were partially offset by our cost saving initiatives.

The operating expenses in fiscal 2017 included a receipt of $1.9 million of deferred purchase consideration relating to an acquisition made in fiscal 2014. In fiscal 2017, we also recorded a charge of $9.4 million in operating expenses, related to the ERP system implementation in our Americas region, including a $6.3 million write-off of previously capitalized costs during the first quarter of fiscal 2017.

Selling expenses, our main component of operating expenses, were 51.5% in fiscal 2018, compared to 53.9% in fiscal 2017.

Restructuring and other exit charges

Included in our fiscal 2018 operating results is a $5.5 million charge of restructuring and other exit charges, comprising $1.3 million in Americas, $4.0 million in EMEA and $0.2 million in Asia. The charges in the Americas primarily relate to improving efficiencies of our general operations, while charges in EMEA relate to restructuring programs to improve efficiencies in our manufacturing, supply chain and general operations. In addition, cost of goods sold also include a $3.4 million of inventory write-off relating to the closing of our Cleveland, Ohio charger manufacturing facility.

Included in our fiscal 2017 operating results is a $7.1 million charge consisting of restructuring and other exit charges, comprising primarily of $5.5 million in EMEA, $0.9 million in Americas and $0.7 million in Asia. Of the restructuring and other exit charges in EMEA of $5.5 million, $4.3 million of restructuring charges related primarily to European manufacturing operations and $1.2 million of other exit charges related to our joint venture in South Africa. In addition, cost of goods sold also includes a $2.1 million inventory adjustment charge relating to the South Africa joint venture, discussed below.

Fiscal 2017 - South Africa exit activities

During fiscal 2017, the Company recorded exit charges of $3.3 million related to the South Africa joint venture, consisting of cash charges of $2.6 million primarily relating to severance and non-cash charges of $0.7 million. Included in the non-cash charges is a $2.1 million charge relating to the inventory adjustment which was reported in cost of goods sold, partially offset by a credit of $1.1 million relating to a change in estimate of contract losses and a $0.3 million gain on deconsolidation of the joint venture. Weakening of the general economic environment in South Africa, reflecting the limited growth in the mining industry, affected the joint venture's ability to compete effectively in the marketplace and consequently, the Company initiated an exit plan in consultation with its joint venture partner in the second quarter of fiscal 2017. The joint venture is currently under liquidation resulting in a loss of control and deconsolidation of the joint venture. The impact of the deconsolidation has been reflected in the Consolidated Statements of Income.

Fiscal 2017 - Impairment of goodwill and indefinite-lived intangibles

In the fourth quarter of fiscal 2017, we conducted step one of the annual goodwill impairment test which indicated that the fair values of two of our reporting units - Purcell US in the Americas and Purcell EMEA in EMEA operating segment, were less

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than their respective carrying values. Based on the guidance in ASU 2017-04, which we early adopted, we recognized an impairment charge for the amount by which the carrying amount exceeded the reporting unit's fair value.

We recorded a non-cash charge of $8.6 million and $3.6 million, related to goodwill impairment in the Americas and EMEA operating segments, respectively, and $0.7 million and $1.1 million, related to impairment of indefinite-lived trademarks in the Americas and EMEA operating segments, respectively, in the Consolidated Statements of Income.

Purcell was acquired in fiscal 2014 during the height of the 4G telecom build-out. After performing to expectations for the first few quarters, its revenue declined as telecom spending in the U.S. curtailed sharply. In fiscal 2016, lower estimated projected revenue and profitability in the near term caused by reduced levels of capital spending by major customers in the telecommunications industry was a key factor contributing to the impairment charges recorded in that year. In fiscal 2017, we transferred the European operations of Purcell to its EMEA operating segment, consistent with our geographical management approach. In the U.S., Purcell received significant orders, but at lower margins, resulting in an impairment in 2017. In Europe, Purcell's sales forecasts were reduced as a result of low telecom spending and accordingly recorded an impairment charge as well.

Fiscal 2017 - Legal proceedings charge

Certain of our European subsidiaries had received subpoenas and requests for documents and, in some cases, interviews from, and have had on-site inspections conducted by the competition authorities of Belgium, Germany and the Netherlands relating to conduct and anticompetitive practices of certain industrial battery participants. We settled the Belgian regulatory proceeding in February 2016 by acknowledging certain anticompetitive practices and conduct and agreeing to pay a fine of $2.0 million, which was paid in March 2016.

As of March 31, 2018 and March 31, 2017, the Company had a reserve balance of $2.3 million and $1.8 million, respectively, relating to certain ancillary matters associated with the Belgian regulatory proceeding. The change in the reserve balance between March 31, 2018 and March 31, 2017 was due to foreign currency translation impact.

As of January 1, 2017, we had estimated an aggregate range of possible loss associated with the German regulatory proceeding of $17.0 million to $26.0 million and reserved $17.0 million. Based on the continued evolution of facts and our interactions with the German competition authority in regard to this matter, we further refined our estimate for a portion of this proceeding to be $13.5 million as of March 31, 2017. The Company settled a portion of the proceeding relating to conduct involving the Company's motive power battery business and agreed to pay a fine of $14.8 million, which was paid in July 2017. Also in June 2017, the German competition authority issued a fining decision related to the Company's reserve power battery business, which constitutes the remaining portion of the previously disclosed German proceeding. The Company is appealing this decision, including payment of the proposed fine of $12.3 million, and believes that the reserve power matter does not, based on current facts and circumstances known to management, require an accrual. The Company is not required to escrow any portion of this fine during the appeal process. As of March 31, 2018 and March 31, 2017, the Company had a reserve balance of $0 and $13.5 million, respectively, relating to this matter.

For the Dutch regulatory proceeding, we reserved $10.2 million as of March 31, 2017. In July 2017, the Company settled the Dutch regulatory proceeding and agreed to pay a fine of $11.2 million, which was paid in August 2017. As of March 31, 2018 and March 31, 2017, the Company had a reserve balance of $0 and $10.2 million, respectively, relating to the Dutch regulatory proceeding.

As of March 31, 2018 and March 31, 2017, we had a total reserve balance of $2.3 million and $25.6 million, respectively, in connection with these remaining investigations and other related legal matters, included in Accrued Expenses on the Consolidated Balance Sheets. The foregoing estimate of losses is based upon currently available information for these proceedings. However, the precise scope, timing and time period at issue, as well as the final outcome of the investigations or customer claims, remain uncertain. Accordingly, the Company’s estimate may change from time to time, and actual losses could vary.

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Operating Earnings

Operating earnings by segment were as follows:

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales(1)	In Millions	As % Net Sales(1)	In Millions	%
Americas	$189.0	13.2 %	$191.5	14.4 %	$(2.5)	(1.3)%
EMEA	76.6	9.0	76.2	10.0	0.4	0.3
Asia	12.6	4.2	15.1	5.5	(2.5)	(15.7)
Subtotal	278.2	10.8	282.8	12.0	(4.6)	(1.6)
Inventory adjustment relating to exit activities - Americas	(3.4)	(0.2)	—	—	(3.4)	NM
Restructuring charges - Americas	(1.3)	(0.1)	(0.9)	(0.1)	(0.4)	39.7
Inventory adjustment relating to exit activities - EMEA	—	—	(2.1)	(0.3)	2.1	NM
Restructuring and other exit charges - EMEA	(4.0)	(0.5)	(5.5)	(0.7)	1.5	(26.7)
Restructuring charges - Asia	(0.2)	(0.1)	(0.7)	(0.3)	0.5	(72.9)
Impairment of goodwill and indefinite-lived intangibles - Americas	—	—	(9.3)	(0.7)	9.3	NM
Impairment of goodwill and indefinite-lived intangibles - EMEA	—	—	(4.7)	(0.6)	4.7	NM
Legal proceedings charge - EMEA	—	—	(23.7)	(3.1)	23.7	NM
Total operating earnings	$269.3	10.4 %	$235.9	10.0 %	$33.4	14.2 %

NM = not meaningful

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

Operating earnings increased $33.4 million or 14.2% in fiscal 2018, compared to fiscal 2017. Operating earnings, as a percentage of net sales, increased 40 basis points in fiscal 2018, compared to fiscal 2017. Excluding the impact of highlighted items, operating earnings in fiscal 2018 decreased 120 basis points primarily due to an increase in lead cost partially offset by price recoveries and cost saving initiatives.

The Americas segment's operating earnings, excluding the highlighted items discussed above, decreased $2.5 million or 1.3% in fiscal 2018 compared to fiscal 2017, with the operating margin decreasing 120 basis points to 13.2%. This decrease is primarily due to higher commodity costs partially offset by price recoveries and cost saving initiatives. Excluding the impact of the $6.3 million write-off of previously capitalized costs relating to the ERP system implementation during fiscal 2017, operating earnings of fiscal 2018 decreased by 170 basis points compared to the prior year period.

The EMEA segment's operating earnings, excluding the highlighted items discussed above, increased $0.4 million or 0.3% in fiscal 2018 compared to fiscal 2017, with the operating margin decreasing 100 basis points to 9.0%. This decrease is primarily due to an increase in lead cost, partially offset by price recoveries and cost saving initiatives.

Operating earnings in Asia, excluding the highlighted items discussed above, decreased $2.5 million or 15.7% in fiscal 2018 compared to fiscal 2017, with the operating margin decreasing by 130 basis points to 4.2%. This decrease is primarily due to higher commodity costs, partially offset by price recoveries, currency headwinds and a slowdown in telecom spending during the first half of fiscal 2018 in the PRC.

Interest Expense

Fiscal 2018		Fiscal 2017		Increase (Decrease)	
In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%

Interest expense	$25.0	1.0 %	$22.2	1.0 %	$ 2.8	12.6 %

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Interest expense of $25.0 million in fiscal 2018 (net of interest income of $3.0 million) was $2.8 million higher than the $22.2 million in fiscal 2017 (net of interest income of $2.1 million).

Our average debt outstanding was $672.8 million in fiscal 2018, compared to our average debt outstanding of $625.4 million in fiscal 2017. Our average cash interest rate incurred in fiscal 2018 was 3.7% compared to 3.3% in fiscal 2017. The increase in our average debt was primarily to fund treasury share repurchase activity.

Included in interest expense were non-cash charges related to amortization of deferred financing fees of $1.6 million in fiscal 2018 and $1.4 million in fiscal 2017.

Other (Income) Expense, Net

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	$6.0	0.2 %	$1.0	— %	$ 5.0	NM

NM = not meaningful

Other (income) expense, net was expense of $6.0 million in fiscal 2018 compared to expense of $1.0 million in fiscal 2017 primarily due to foreign currency losses of $5.5 million in fiscal 2018 compared to foreign currency gains of $0.6 million in fiscal 2017.

Earnings Before Income Taxes

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	$238.3	9.2 %	$212.7	9.0 %	$25.6	12.1 %

As a result of the factors discussed above, fiscal 2018 earnings before income taxes were $238.3 million, an increase of $25.6 million or 12.1% compared to fiscal 2017.

Income Tax Expense

	Fiscal 2018		Fiscal 2017		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	$118.5	4.6 %	$54.5	2.3 %	$64.0	NM
Effective tax rate	49.7 %		25.6 %		24.1 %	

NM = not meaningful

Our effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions in which we operate and the amount of our consolidated income before taxes.

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted into law. Among the significant changes resulting from the law, the Tax Act reduces the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, requires companies to pay a one-time transition tax on unrepatriated cumulative non-U.S. earnings of foreign subsidiaries (“Transition Tax”), and creates new taxes on certain foreign sourced earnings. In accordance with ASC 740, “Income Taxes”, we are required to record the effects of tax law changes in the period enacted. As a result of the rate change in the Tax Act, our blended U.S. statutory tax rate for fiscal 2018 is 31.55%.

As of March 31, 2018, we have not completed our accounting for the tax effects of enactment of the Tax Act; however, in certain cases, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the Transition Tax. Our results for fiscal 2018 contain estimates of the impact of the Tax Act as permitted by Staff Accounting Bulletin 118 “SAB 118” issued by the Securities and Exchange Commission on December 22, 2017. These amounts are considered provisional and may be affected by future guidance if and when issued.

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As a result of the Tax Act, fiscal 2018 financial statements include a provisional net tax expense of $83.4 million which is comprised of the following:

Foreign tax effects: The Transition Tax is based on our total post-1986 earnings and profits (“E&P”) that we previously deferred from U.S. income taxes. We recorded a provisional amount for our Transition Tax liability, resulting in an increase in income tax expense of $97.5 million; an increase of $3.5 million from the amount reported in the third quarter of fiscal 2018. The estimated Transition Tax of $97.5 million is recorded under current income tax payable and non-current income tax payable, at $7.8 million and $89.7 million, respectively, and is payable over eight years. Further, the Transition Tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize both the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the Transition Tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations.

Deferred tax assets and liabilities: We remeasured our deferred tax assets and liabilities based on the reduced U.S. federal income tax rate of 21%. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our deferred tax balance was a tax benefit of $14.1 million; a decrease of $0.6 million from the amount reported in the third quarter of fiscal 2018.

In all cases, we may adjust these provisional amounts which could potentially affect the measurement and impact on tax expense as we refine our calculations within a reasonable period not to exceed one year from the enactment date.

The Company’s income tax provision consists of federal, state and foreign income taxes. The effective income tax rate was 49.7% in fiscal 2018 compared to the fiscal 2017 effective income tax rate of 25.6%. The rate increase in fiscal 2018 as compared to fiscal 2017 is primarily due to the impact of the Tax Act in fiscal 2018, partially offset by a decrease due to the reversal of previously recognized deferred tax valuation allowances related to certain of the Company’s foreign subsidiaries in fiscal 2018, decreases due to non-deductible goodwill impairment charges and non-deductible legal proceedings charge relating to the European competition investigation in fiscal 2017, and a decrease due to changes in the mix of earnings among tax jurisdictions. The valuation allowances released are primarily the result of an operational restructuring approved during the fourth quarter of fiscal 2018.

The fiscal 2018 foreign effective income tax rate on foreign pre-tax income of $163.9 million was 5.2% compared to foreign pre-tax income of $132.3 million and effective income tax rate of 13.5% in fiscal 2017. For both fiscal 2018 and fiscal 2017, the difference in the foreign effective tax rate versus the U.S. statutory rate of 31.55% and 35%, respectively, is primarily attributable to lower tax rates in the foreign countries in which we operate. The rate decrease in fiscal 2018 compared to fiscal 2017 is primarily due to the reversal of previously recognized deferred tax valuation allowances related to certain of the Company’s foreign subsidiaries in fiscal 2018, decreases due to non-deductible goodwill impairment charges and non-deductible legal proceedings charge related to the European competition investigation in fiscal 2017, and changes in the mix of earnings among tax jurisdictions.

Income from our Swiss subsidiary comprised a substantial portion of our overall foreign mix of income for both fiscal 2018 and fiscal 2017 and is taxed at an effective income tax rate of approximately 8% and 5%, respectively.

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Results of Operations—Fiscal 2017 Compared to Fiscal 2016

The following table presents summary Consolidated Statement of Income data for fiscal year ended March 31, 2017, compared to fiscal year ended March 31, 2016:

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Net sales	$2,367.1	100.0 %	$2,316.2	100.0 %	$50.9	2.2 %
Cost of goods sold	1,714.4	72.4	1,704.5	73.6	9.9	0.6
Inventory adjustment relating to exit activities - See Note 19	2.1	0.1	—	—	2.1	NM
Gross profit	650.6	27.5	611.7	26.4	38.9	6.4
Operating expenses	369.9	15.6	352.7	15.2	17.2	4.8
Restructuring and other exit charges	7.1	0.3	12.9	0.5	(5.8)	(44.8)
Impairment of goodwill	12.2	0.5	31.5	1.4	(19.3)	(61.1)
Impairment of indefinite-lived intangibles and fixed assets	1.8	0.1	4.8	0.2	(3.0)	(62.8)
Legal proceedings charge	23.7	1.0	3.2	0.1	20.5	NM
Gain on sale of facility	—	—	(3.4)	(0.1)	3.4	NM
Operating earnings	235.9	10.0	210.0	9.1	25.9	12.3
Interest expense	22.2	1.0	22.3	1.0	(0.1)	(0.7)
Other (income) expense, net	1.0	—	5.7	0.2	(4.7)	(83.1)
Earnings before income taxes	212.7	9.0	182.0	7.9	30.7	16.9
Income tax expense	54.5	2.3	50.1	2.2	4.4	8.7
Net earnings	158.2	6.7	131.9	5.7	26.3	20.0
Net losses attributable to noncontrolling interests	(2.0)	(0.1)	(4.3)	(0.2)	2.3	(54.0)
Net earnings attributable to EnerSys stockholders	$160.2	6.8 %	$136.2	5.9 %	$24.0	17.7 %

NM = not meaningful

Overview

Our sales in fiscal 2017 were $2.4 billion, a 2% increase from prior year's sales. This increase was the result of a 2% increase in organic volume and a 1% increase each from pricing and acquisitions, partially offset by a 2% decrease due to foreign currency translation impact.

Gross profit margin percentage in fiscal 2017 increased by 110 basis points to 27.5% compared to fiscal 2016, mainly due to favorable product mix combined with the benefits of restructuring programs in EMEA, along with a modest growth in organic volume and a decrease in warranty costs.

A discussion of specific fiscal 2017 versus fiscal 2016 operating results follows, including an analysis and discussion of the results of our reportable segments.

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Net Sales

Net sales by reportable segment were as follows:

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	% Net Sales	In Millions	% Net Sales	In Millions	%
Americas	$1,332.3	56.3 %	$1,276.0	55.1 %	$56.3	4.4 %
EMEA	763.1	32.2	787.4	34.0	(24.3)	(3.1)
Asia	271.7	11.5	252.8	10.9	18.9	7.5
Total net sales	$2,367.1	100.0%	$2,316.2	100.0%	$50.9	2.2 %

The Americas segment's revenue increased by $56.3 million or 4.4% in fiscal 2017, compared to fiscal 2016, primarily due a 4% increase in organic volume and a 1% increase in acquisitions, partially offset by a 1% decrease in currency translation impact.

The EMEA segment's revenue decreased by $24.3 million or 3.1% in fiscal 2017, compared to fiscal 2016, primarily due to a 4% decrease in currency translation impact, partially offset by a 1% increase in organic volume.

The Asia segment's revenue increased by $18.9 million or 7.5% in fiscal 2017, compared to fiscal 2016, primarily due to an increase from acquisitions, pricing and organic volume of approximately 6%, 2% and 2%, respectively, partially offset by a 2% decrease in currency translation impact.

Net sales by product line were as follows:

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Reserve power	$1,142.2	48.3 %	$1,109.2	47.9 %	$ 33.0	3.0 %
Motive power	1,224.9	51.7	1,207.0	52.1	17.9	1.5
Total net sales	$2,367.1	100.0%	$2,316.2	100.0%	$ 50.9	2.2 %

Sales in our reserve power product line increased in fiscal 2017 by $33.0 million or 3% compared to the prior year, primarily due to an increase from acquisitions and organic volume of approximately 3% and 2%, respectively, partially offset by a 2% decrease in currency translation impact.

Sales in our motive power product line increased in fiscal 2017 by $17.9 million or 1.5% compared to the prior year, primarily due to an increase from organic volume and pricing of approximately 2% and 1%, respectively, partially offset by a 2% decrease in currency translation impact.

Gross Profit

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Gross profit	$650.6	27.5 %	$611.7	26.4 %	$ 38.9	6.4 %

Gross profit increased $38.9 million or 6.4% in fiscal 2017 compared to fiscal 2016. Gross profit, excluding the effect of foreign currency translation, increased $45.4 million or 7.4% in fiscal 2017 compared to fiscal 2016. The 110 basis point improvement in the gross profit margin is primarily due to favorable product mix combined with the benefits of restructuring programs in EMEA, along with a modest growth in organic volume and a decrease in warranty costs.

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Operating Items

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Operating expenses	$369.9	15.6 %	$352.7	15.2 %	$17.2	4.8 %
Restructuring and other exit charges	7.1	0.3	12.9	0.5	(5.8)	(44.8)
Impairment of goodwill	12.2	0.5	31.5	1.4	(19.3)	(61.1)
Impairment of indefinite-lived intangibles and fixed assets	1.8	0.1	4.8	0.2	(3.0)	(62.8)
Legal proceedings charge	23.7	1.0	3.2	0.1	20.5	NM
Gain on sale of facility	—	—	(3.4)	(0.1)	3.4	NM

NM = not meaningful

Operating Expenses

Operating expenses increased $17.2 million or 4.8% in fiscal 2017 from fiscal 2016. Operating expenses, excluding the effect of foreign currency translation, increased $22.2 million or 6.4% in fiscal 2017 compared to fiscal 2016. The operating expenses in fiscal 2017 included a receipt of $1.9 million of deferred purchase consideration relating to an acquisition made in fiscal 2014. The increase in operating expenses as a percentage of sales of 40 basis points in fiscal 2017 was primarily due to payroll related expenses, acquisitions and professional fees, partially offset by the aforementioned receipt of deferred purchase consideration. In fiscal 2017, we also recorded a charge of $9.4 million in operating expenses, related to the ERP system implementation in our Americas region, including a $6.3 million write-off of previously capitalized costs during the first quarter of fiscal 2017. We determined that previously capitalized costs associated with the implementation should be written off, after reassessing our software design subsequent to encountering difficulty in the roll out at our pilot location. These costs were previously included in the construction in progress balance within property, plant and equipment, net, in the Consolidated Balance Sheet.

Restructuring and other exit charges

Included in our fiscal 2017 operating results is a $7.1 million charge consisting of restructuring and other exit charges, comprised of $5.5 million in EMEA, $0.9 million in Americas and $0.7 million in Asia. Of the restructuring and exit charges in EMEA of $5.5 million, $4.3 million of restructuring charges related primarily to European manufacturing operations and $1.2 million of exit charges related to our joint venture in South Africa. In addition, cost of goods sold also included a $2.1 million inventory adjustment charge relating to the South Africa joint venture.

South Africa exit activities

During fiscal 2017, the Company recorded exit charges of $3.3 million related to the South Africa joint venture, consisting of cash charges of $2.6 million primarily relating to severance and non-cash charges of $0.7 million. Included in the non-cash charges was a $2.1 million charge relating to the inventory adjustment which was reported in cost of goods sold, partially offset by a credit of $1.1 million relating to a change in estimate of contract losses and a $0.3 million gain on deconsolidation of the joint venture. See the discussion under *Results of Operations—Fiscal 2018 Compared to Fiscal 2017 - Fiscal 2017 - South Africa exit activities* for more details.

Included in fiscal 2016 operating results were restructuring and other exit charges in EMEA of $9.4 million and restructuring charges of $2.1 million and $1.4 million in Americas and Asia, respectively.

Impairment of goodwill, indefinite-lived intangibles and fixed assets

In the fourth quarter of fiscal 2017, we conducted step one of the annual goodwill impairment test which indicated that the fair values of two of our reporting units - Purcell US in the Americas and Purcell EMEA in EMEA operating segment, were less than their respective carrying values. Based on the guidance in ASU 2017-04, which we early adopted, we recognized an impairment charge for the amount by which the carrying amount exceeded the reporting unit's fair value.

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We recorded a non-cash charge of $8.6 million and $3.6 million, related to goodwill impairment in the Americas and EMEA operating segments, respectively, and $0.7 million and $1.1 million, related to impairment of indefinite-lived trademarks in the Americas and EMEA operating segments, respectively, in the Consolidated Statements of Income.

See the discussion under *Results of Operations—Fiscal 2018 Compared to Fiscal 2017 - Fiscal 2017 - Impairment of goodwill and indefinite-lived intangibles* for more details.

Legal proceedings charge / (reversal of legal accrual, net of fees)

Certain of our European subsidiaries have received subpoenas and requests for documents and, in some cases, interviews from, and have had on-site inspections conducted by the competition authorities of Belgium, Germany and the Netherlands relating to conduct and anticompetitive practices of certain industrial battery participants. We settled the Belgian regulatory proceeding in February 2016 by acknowledging certain anticompetitive practices and conduct and agreeing to pay a fine of $2.0 million, which was paid in March 2016. As of March 31, 2017 and March 31, 2016, we had a reserve balance of $1.8 million and $2.0 million, respectively, relating to certain ancillary matters associated with the Belgian regulatory proceeding. The change in the reserve balance between March 31, 2017 and March 31, 2016 was solely due to foreign currency translation impact.

As of January 1, 2017, we had estimated an aggregate initial range of possible loss associated with the German regulatory proceeding of $17.0 million to $26.0 million and reserved $17.0 million with respect to the German regulatory proceeding. Based on the continued evolution of facts and our interactions with the German competition authority in regard to this matter, we further refined our estimate for a portion of this proceeding to be $13.5 million as of March 31, 2017.

For the Dutch regulatory proceeding, we reserved $10.2 million as of March 31, 2017.

See the discussion under *Results of Operations—Fiscal 2018 Compared to Fiscal 2017 - Fiscal 2017 - Legal Proceedings Charge* for more details on this European matter.

Included in our fiscal 2016 results was the reversal of a $0.8 million legal accrual in Americas, relating to legal fees, subsequent to the final settlement of the Altergy matter.

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Operating Earnings

Operating earnings by segment were as follows:

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales(1)	In Millions	As % Net Sales(1)	In Millions	%
Americas	$191.5	14.4 %	$182.7	14.3 %	$8.8	4.8 %
EMEA	76.2	10.0	75.6	9.6	0.6	1.0
Asia	15.1	5.5	0.7	0.2	14.4	NM
Subtotal	282.8	12.0	259.0	11.2	23.8	9.2
Restructuring charges - Americas	(0.9)	(0.1)	(2.1)	(0.2)	1.2	(56.7)
Inventory adjustment relating to exit activities - EMEA	(2.1)	(0.3)	—	—	(2.1)	NM
Restructuring and other exit charges - EMEA	(5.5)	(0.7)	(9.4)	(1.2)	3.9	(42.2)
Restructuring charges - Asia	(0.7)	(0.3)	(1.4)	(0.6)	0.7	(45.0)
Impairment of goodwill and indefinite-lived intangibles - Americas	(9.3)	(0.7)	(33.0)	(2.6)	23.7	(71.7)
Impairment of goodwill, indefinite-lived intangibles and fixed assets - EMEA	(4.7)	(0.6)	(3.3)	(0.4)	(1.4)	43.6
Reversal of legal accrual, net of fees - Americas	—	—	0.8	0.1	(0.8)	NM
Legal proceedings charge - EMEA	(23.7)	(3.1)	(4.0)	(0.5)	(19.7)	NM
Gain on sale of facility - Asia	—	—	3.4	1.4	(3.4)	NM
Total operating earnings	$235.9	10.0 %	$210.0	9.1 %	$25.9	12.3 %

NM = not meaningful

(1) The percentages shown for the segments are computed as a percentage of the applicable segment's net sales.

Fiscal 2017 operating earnings of $235.9 million were $25.9 million higher than in fiscal 2016 and were 10.0% of sales. The 90 basis point improvement in operating margin was primarily attributable to improved mix, better manufacturing capacity utilization from higher organic volume, benefits from cost saving initiatives and lower warranty costs. Commodity costs remained relatively flat compared to the prior year but were on the rise as we exited the fiscal year. The lower restructuring and exit charges and impairment charges in fiscal 2017 were largely offset by the legal proceedings charge in EMEA. Also included in the operating earnings of fiscal 2016 was the $3.4 million gain on sale of our plant in Chaozhou, PRC, recorded in fiscal 2016.

The Americas segment's operating earnings, excluding the highlighted items discussed above, increased $8.8 million or 4.8% in fiscal 2017 compared to fiscal 2016, with the operating margin increasing 10 basis points to 14.4%. This relatively flat operating margin in our Americas segment was primarily due to higher organic volume, improved product mix in both product lines, combined with lower manufacturing costs, negatively offset by the write-off during the first quarter fiscal 2017 of previously capitalized costs of $6.3 million related to the new ERP system.

The EMEA segment's operating earnings, excluding the highlighted items discussed above, increased $0.6 million or 1.0% in fiscal 2017 compared to fiscal 2016, with the operating margin increasing 40 basis points to10.0%. This increase was primarily on account of improved product mix, manufacturing efficiencies and lower warranty costs combined with benefits from cost reduction programs, partially offset by currency headwinds and weak reserve power telecom market demand.

Operating earnings in Asia, excluding the highlighted items discussed above, increased $14.4 million in fiscal 2017 compared to fiscal 2016, with the operating margin increasing by 530 basis points to 5.5% was primarily due to improved product mix and results from our India operations. Our PRC operations improved as the transition from our

Jiangsu to Yangzhou facilities was completed.

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Interest Expense

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Interest expense	$22.2	1.0 %	$22.3	1.0 %	$(0.1)	(0.7)%

Interest expense of $22.2 million in fiscal 2017 (net of interest income of $2.1 million) was $0.1 million lower than the $22.3 million in fiscal 2016 (net of interest income of $1.9 million).

Our average debt outstanding was $625.4 million in fiscal 2017, compared to our average debt outstanding (including the average amount of the Convertible Notes discount of $0.2 million) of $626.8 million in fiscal 2016. Our average cash interest rate incurred in fiscal 2017 was 3.3% compared to 3.1% in fiscal 2016.

Included in interest expense were non-cash charges related to amortization of deferred financing fees of $1.4 million in fiscal 2017 and $1.5 million in fiscal 2016. Also included in interest expense of fiscal 2016 was non-cash, accreted interest on the Convertible Notes of $1.3 million.

Other (Income) Expense, Net

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Other (income) expense, net	$1.0	—%	$5.7	0.2 %	$(4.7)	(83.1)%

Other (income) expense, net was expense of $1.0 million in fiscal 2017 compared to expense of $5.7 million in fiscal 2016 primarily due to foreign currency gains of $0.6 million in fiscal 2017 compared to foreign currency losses of $5.4 million in fiscal 2016, partially offset by miscellaneous income of $1.2 million in fiscal 2016.

Earnings Before Income Taxes

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Earnings before income taxes	$212.7	9.0 %	$182.0	7.9 %	$ 30.7	16.9 %

As a result of the factors discussed above, fiscal 2017 earnings before income taxes were 212.7 million, an increase of $30.7 million or 16.9% compared to fiscal 2016.

Income Tax Expense

	Fiscal 2017		Fiscal 2016		Increase (Decrease)	
	In Millions	As % Net Sales	In Millions	As % Net Sales	In Millions	%
Income tax expense	$54.5	2.3 %	$50.1	2.2 %	$4.4	8.7 %
Effective tax rate	25.6 %		27.5 %		(1.9)%	

Our effective income tax rate with respect to any period may be volatile based on the mix of income in the tax jurisdictions in which we operate and the amount of our consolidated income before taxes.

The Company's income tax provision consists of federal, state and foreign income taxes. The effective income tax rate was 25.6% in fiscal 2017 compared to the fiscal 2016 effective income tax rate of 27.5%. The rate decrease in fiscal 2017 as compared to fiscal 2016 was primarily due to changes in the mix of earnings among tax jurisdictions and a decrease in non-deductible goodwill impairment charges as compared to fiscal 2016, partially offset by an increase in non-deductible legal proceedings charge relating to the European competition investigation in fiscal 2017 as compared to fiscal 2016.

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The fiscal 2017 foreign effective income tax rate on foreign pre-tax income of $132.3 million was 13.5% compared to foreign pre-tax income of $117.7 million and effective income tax rate of 16.9% in fiscal 2016. For both fiscal 2017 and fiscal 2016 the difference in the foreign effective tax rate versus the U.S. statutory rate of 35% was primarily attributable to lower tax rates in the foreign countries in which we operate. The rate decrease in fiscal 2017 compared to fiscal 2016 was primarily due to changes in the mix of earnings among tax jurisdictions and a decrease in non-deductible goodwill impairment charges compared to fiscal 2016, partially offset by an increase in non-deductible legal proceedings charge relating to the European competition investigation in fiscal 2017 compared to fiscal 2016.

Income from our Swiss subsidiary comprised a substantial portion of our overall foreign mix of income for both fiscal 2017 and fiscal 2016 and was taxed at an effective income tax rate of approximately 5% and 7%, respectively.

Liquidity and Capital Resources

Cash Flow and Financing Activities

Cash and cash equivalents at March 31, 2018, 2017 and 2016, were $522.1 million, $500.3 million and $397.3 million, respectively.

Cash provided by operating activities for fiscal 2018, 2017 and 2016, was $211.0 million, $246.0 million and $307.6 million, respectively.

During fiscal 2018, cash provided by operating activities was primarily from net earnings of $119.8 million, depreciation and amortization of $54.3 million, stock-based compensation of $19.5 million, non-cash charges relating to write-off of assets of $3.7 million, non-cash interest of $1.6 million and provision for doubtful accounts of $0.8 million, partially offset by deferred tax benefit of $20.3 million. Cash provided by earnings as adjusted for non-cash items was improved by an increase of $94.0 million in long term liabilities primarily due to the Transition Tax liability and was partially offset by the increase in primary working capital of $49.0 million, net of currency translation changes, and a decrease in accrued expenses of $26.6 million, comprising primarily of legal proceedings related payments, payroll related expenses and income taxes. Prepaid and other current assets, comprising of prepaid taxes, also provided an increase of $14.5 million to operating cash.

During fiscal 2017, cash provided by operating activities was primarily from net earnings of $158.2 million, depreciation and amortization of $53.9 million, non-cash charges relating to write-off of goodwill and other assets of $20.3 million, stock-based compensation of $19.2 million, provision of doubtful accounts of $1.8 million, restructuring and other exit charges of $1.4 million, and non-cash interest of $1.4 million. Cash provided by operating activities were partially offset by the increase in primary working capital of $55.5 million, net of currency translation changes. Cash provided by operating activities were positively impacted by legal proceedings accrual of $23.7 million and accrued expenses of $9.3 million, comprising primarily of income and other taxes.

During fiscal 2016, cash from operating activities was provided primarily from net earnings of $131.8 million, depreciation and amortization of $56.0 million, non-cash charges relating to write-off of goodwill and other assets of $36.3 million, stock-based compensation of $19.6 million, provision of doubtful accounts of $4.7 million, restructuring of $3.8 million and non-cash interest of $2.8 million and were partially offset by a gain of $4.3 million on sale of our facility in the PRC. Also contributing to our cash provided from operating activities was the decrease in primary working capital of $55.0 million, net of currency translation changes.

As explained in the discussion of our use of “non-GAAP financial measures,” we monitor the level and percentage of primary working capital to sales. Primary working capital for this purpose is trade accounts receivable, plus inventories, minus trade accounts payable and the resulting net amount is divided by the trailing three-month net sales (annualized) to derive a primary working capital percentage. Primary working capital was $701.6 million (yielding a primary working capital percentage of 25.7%) at March 31, 2018 and 624.8 million (yielding a primary working capital percentage of 24.9%) at March 31, 2017. The primary working capital percentage of 25.7% at March 31, 2018 is 80 basis points higher than that for March 31, 2017, and 140 basis points higher than that for March 31, 2016. Primary working capital percentage increased during fiscal 2018 largely due to higher inventory levels. The reason for the increase in inventory is partially due to rising lead costs and a longer supply chain on selective products.

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Primary Working Capital and Primary Working Capital percentages at March 31, 2018, 2017 and 2016 are computed as follows:

At March 31,	Trade Receivables	Inventory	Accounts Payable	Primary Working Capital	Quarter Revenue Annualized	Primary Working Capital (%)
		(in millions)				
2018	$ 546.3	$414.2	$(258.9)	$701.6	$2,732.2	25.7 %
2017	486.6	360.7	(222.5)	624.8	2,507.2	24.9
2016	490.8	331.0	(228.4)	593.4	2,445.9	24.3

Cash used in investing activities for fiscal 2018, 2017 and 2016 was $72.4 million, $61.8 million and $80.9 million, respectively. Capital expenditures were $69.8 million, $50.1 million and $55.9 million in fiscal 2018, 2017 and 2016, respectively. During fiscal 2018, capital spending focused primarily on continuous improvement to our equipment and facilities world-wide and the continuation of a new ERP system implementation for our Americas.

During fiscal 2018, 2017 and 2016, we had minor acquisitions resulting in a cash outflow of $3.0 million, $12.4 million and $35.4 million, respectively.

During fiscal 2018, financing activities used cash of $166.9 million. In fiscal 2018, we entered into a new 2017 Credit Facility and borrowed $379.8 million under the 2017 Revolver and $150.0 million under the 2017 Term loan. Repayments on the 2017 Revolver during fiscal 2018 were $244.3 million. Borrowings and repayments on the 2011 Revolver during fiscal 2018 were $147.1 million and $312.1 million, respectively, and repayment of the 2011 Term loan was $127.5 million. On August 4, 2017, the outstanding balance on the 2011 Revolver and the 2011 Term Loan of $240.0 million and $123.0 million, respectively, was repaid utilizing the proceeds from the 2017 Credit Facility. We also paid $100.0 million under the ASR agreement, which was settled on January 9, 2018. Treasury stock open market purchases were $21.2 million, payment of cash dividends to our stockholders were $29.7 million, payment of taxes related to net share settlement of equity awards were $7.5 million and debt issuance costs were $2.7 million. Net borrowings on short-term debt were $0.2 million and proceeds from stock options were $1.0 million.

During fiscal 2017, financing activities used cash of $62.5 million primarily due to 2011 Revolver borrowings of $262.0 million and repayments of $267.0 million, repayment of our 2011 Term Loan of $15.0 million, payment of cash dividends to our stockholders of $30.4 million, and payment of taxes related to net share settlement of equity awards of $7.4 million. Net payments on short-term debt were $4.6 million.

During fiscal 2016, financing activities used cash of $105.7 million primarily due to 2011 Revolver repayments of $360.8 million, purchase of treasury stock for $178.2 million, principal payment of $172.3 million to the Convertible Notes holders, payment of cash dividends to our stockholders of $30.9 million, repayment on 2011 Term Loan of $7.5 million and debt issuance costs of $5.0 million relating to the Notes. This was partially offset by revolver borrowings of $355.8 million and the issuance of $300.0 million of the Notes. Taxes paid related to net share settlement of equity awards, net of option proceeds and related tax benefits also resulted in a net outflow of $10.9 million. Net borrowings on short-term debt were $4.2 million.

As a result of the above, total cash and cash equivalents increased $21.8 million from $500.3 million at March 31, 2017 to $522.1 million at March 31, 2018.

We currently are in compliance with all covenants and conditions under our credit agreements.

In addition to cash flows from operating activities, we had available committed and uncommitted credit lines of approximately $613 million at March 31, 2018 to cover short-term liquidity requirements. Our 2017 Credit Facility is committed through September 30, 2022, as long as we continue to comply with the covenants and conditions of the credit facility agreement. We have $463 million in available credit lines under our 2017 Credit Facility at March 31, 2018.

We believe that our cash flow from operations, available cash and cash equivalents and available borrowing capacity under our credit facilities will be sufficient to meet our liquidity needs, including normal levels of capital expenditures, for the foreseeable future; however, there can be no assurance that this will be the case.

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Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements during any of the periods covered by this report.

Contractual Obligations and Commercial Commitments

At March 31, 2018, we had certain cash obligations, which are due as follows:

	Total	Less than 1 year	2 to 3 years	4 to 5 years	After 5 years
	(in millions)				
Debt obligations	$585.5	$ 3.8	$22.5	$259.2	$300.0
Short-term debt	18.3	18.3	—	—	—
Interest on debt	135.0	25.0	46.3	41.2	22.5
Operating leases	105.5	27.9	42.8	22.5	12.3
Tax Act - Transition Tax	97.5	7.8	15.6	15.6	58.5
Pension benefit payments and profit sharing	39.9	3.0	6.3	7.5	23.1
Restructuring	2.9	2.9	—	—	—
Purchase commitments	6.9	6.9	—	—	—
Lead forward contracts	3.9	3.9	—	—	—
Capital lease obligations, including interest	0.1	0.1	—	—	—
Total	$995.5	$ 99.6	$133.5	$346.0	$416.4

Due to the uncertainty of future cash outflows, uncertain tax positions have been excluded from the above table.

Under our 2017 Credit Facility and other credit arrangements, we had outstanding standby letters of credit of $3.1 million as of March 31, 2018.

Credit Facilities and Leverage

Our focus on working capital management and cash flow from operations is measured by our ability to reduce debt and reduce our leverage ratios. In the second quarter of fiscal 2018, we entered into the 2017 Credit Facility that comprised a $600 million senior secured revolving credit facility (“2017 Revolver”) and a $150 million senior secured term loan (“2017 Term Loan”) with a maturity date of September 30, 2022. We repaid our then existing facility (“2011 Credit Facility”), which comprised a $500 million senior secured revolving credit facility (“2011 Revolver”) and a $150 million senior secured incremental term loan (the “2011 Term Loan”) with the proceeds of the new facility.

Shown below are the leverage ratios at March 31, 2018 and 2017, in connection with the 2017 Credit Facility and 2011 Credit Facility, respectively.

The total net debt, as defined under the 2017 Credit Facility is $234.7 million for fiscal 2018 and is 0.7 times adjusted EBITDA (non-GAAP), compared to total net debt of $463.7 million and 1.4 times adjusted EBITDA (non-GAAP), as defined under the 2011 Credit Facility, for fiscal 2017.

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The following table provides a reconciliation of net earnings to EBITDA (non-GAAP) and adjusted EBITDA (non-GAAP) for March 31, 2018 and 2017, in connection with the 2017 Credit Facility and 2011 Credit Facility, respectively:

	Fiscal 2018	**Fiscal 2017**
	(in millions, except ratios)	
Net earnings as reported	$ 119.8	$ 158.2
Add back:		
Depreciation and amortization	54.3	53.9
Interest expense	25.0	22.2
Income tax expense	118.5	54.5
EBITDA (non GAAP)(1)	$ 317.6	$ 288.8
Adjustments per credit agreement definitions(2)	23.2	46.8
Adjusted EBITDA (non-GAAP) per credit agreement(1)	$ 340.8	$ 335.6
Total net debt(3)	$ 234.7	$ 463.7
Leverage ratios(4):		
Total net debt/adjusted EBITDA ratio(4)	0.7 X	1.4 X
Maximum ratio permitted	3.50 X	3.25 X
Consolidated interest coverage ratio(5)	14.5 X	16.1 X
Minimum ratio required	3.0 X	4.5 X

(1) We have included EBITDA (non-GAAP) and adjusted EBITDA (non-GAAP) because our lenders use them as key measures of our performance. EBITDA is defined as earnings before interest expense, income tax expense, depreciation and amortization. EBITDA is not a measure of financial performance under GAAP and should not be considered an alternative to net earnings or any other measure of performance under GAAP or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. Our calculation of EBITDA may be different from the calculations used by other companies, and therefore comparability may be limited. Certain financial covenants in our 2017 and 2011 Credit Facility are based on EBITDA, subject to adjustments, which are shown above. Continued availability of credit under our 2017 Credit Facility is critical to our ability to meet our business plans. We believe that an understanding of the key terms of our credit agreement is important to an investor's understanding of our financial condition and liquidity risks. Failure to comply with our financial covenants, unless waived by our lenders, would mean we could not borrow any further amounts under our revolving credit facility and would give our lenders the right to demand immediate repayment of all outstanding revolving credit and term loans. We would be unable to continue our operations at current levels if we lost the liquidity provided under our credit agreements. Depreciation and amortization in this table excludes the amortization of deferred financing fees, which is included in interest expense.

(2) The $23.2 million adjustment to EBITDA in fiscal 2018 primarily related to $19.5 million of non-cash stock compensation and $3.7 million of non-cash restructuring and other exit charges. The $46.8 million adjustment to EBITDA in fiscal 2017 primarily related to $19.2 million of non-cash stock compensation, $1.4 million of non-cash restructuring and other exit charges and $24.1 million of impairment of goodwill, indefinite-lived intangibles, fixed assets and ERP system related charges, $2.0 million relating to minority partners' share of joint venture losses and $0.1 million of acquisition expenses.

(3) Debt includes capital lease obligations and letters of credit and is net of U.S. cash and cash equivalents and a portion of foreign cash and investments, as defined in the 2017 and 2011 Credit Facility. In fiscal 2018, the amounts deducted in the calculation of net debt were U.S. cash and cash equivalents and foreign cash investments of $372 million, and in fiscal 2017, were $150 million.

(4) These ratios are included to show compliance with the leverage ratios set forth in our credit facilities. We show both our current ratios and the maximum ratio permitted or minimum ratio required under our 2017 and 2011

Credit Facility, for fiscal 2018 and fiscal 2017, respectively.

(5) As defined in the 2017 and 2011 Credit Facility, interest expense used in the consolidated interest coverage ratio excludes non-cash interest of $1.6 million and $1.4 million for fiscal 2018 and fiscal 2017, respectively.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 to the Consolidated Financial Statements - Summary of Significant Accounting Policies for a description of certain recently issued accounting standards that were adopted or are pending adoption that could have a significant impact on our Consolidated Financial Statements or the Notes to the Consolidated Financial Statements.

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Related Party Transactions

None.

Sequential Quarterly Information

Fiscal 2018 and 2017 quarterly operating results, and the associated quarterly trends within each of those two fiscal years, are affected by the same economic and business conditions except for income tax expense in the third quarter of fiscal 2018, which included $77.3 million of tax expense as a result of the Tax Act.

	Fiscal 2018				**Fiscal 2017**			
	July 2, 2017 1st Qtr.	**Oct. 1, 2017 2nd Qtr.**	**Dec. 31, 2017 3rd Qtr.**	**March 31, 2018 4th Qtr.**	**July 3, 2016 1st Qtr.**	**Oct. 2, 2016 2nd Qtr.**	**Jan. 1, 2017 3rd Qtr.**	**March 31, 2017 4th Qtr.**
	(in millions, except share and per share amounts)							
Net sales	$622.6	$ 617.3	$ 658.9	$ 683.0	$600.6	$ 576.0	$ 563.7	$ 626.8
Cost of goods sold	459.5	457.4	492.0	512.6	434.3	412.1	408.3	459.7
Inventory adjustment relating to exit activities	—	—	—	3.4	—	2.6	(0.5)	—
Gross profit	163.1	159.9	166.9	167.0	166.3	161.3	155.9	167.1
Operating expenses	92.7	94.1	96.7	98.6	99.0	93.5	85.0	92.4
Restructuring and other exit charges	0.8	1.8	1.8	1.1	1.3	4.9	(1.2)	2.1
Impairment of goodwill	—	—	—	—	—	—	—	12.2
Impairment of indefinite-lived intangibles	—	—	—	—	—	—	—	1.8
Legal proceedings charge	—	—	—	—	—	—	17.0	6.7
Operating earnings	69.6	64.0	68.4	67.3	66.0	62.9	55.1	51.9
Interest expense	5.7	6.5	6.5	6.3	5.7	5.5	5.6	5.4
Other (income) expense, net	2.9	2.4	(0.6)	1.3	1.3	(0.6)	(1.1)	1.4
Earnings before income taxes	61.0	55.1	62.5	59.7	59.0	58.0	50.6	45.1
Income tax expense	12.7	11.9	88.3	5.6	14.4	15.2	13.5	11.4
Net earnings (loss)	48.3	43.2	(25.8)	54.1	44.6	42.8	37.1	33.7
Net earnings (losses) attributable to noncontrolling interests	0.1	—	—	0.1	—	(2.8)	0.9	(0.1)
Net earnings (loss) attributable to EnerSys stockholders	$48.2	$ 43.2	$ (25.8)	$ 54.0	$44.6	$ 45.6	$ 36.2	$ 33.8
Net earnings (loss) per common share attributable to EnerSys stockholders:								
Basic	$1.11	$ 1.01	$ (0.61)	$ 1.29	$1.03	$ 1.05	$ 0.83	$ 0.78
Diluted	$1.09	$ 1.00	$ (0.61)	$ 1.27	$1.02	$ 1.04	$ 0.82	$ 0.76
Weighted-average number of common shares outstanding:								
Basic	43,450,0[illegible]	42,938,131	42,125,745	41,934,187	43,269,94[illegible]	43,426,955	43,429,525	43,430,911
Diluted	44,163,0[illegible]	44,327,361	42,125,745	42,441,647	43,829,84[illegible]	43,949,543	44,049,674	44,221,143

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Net Sales

Quarterly net sales by segment were as follows:

	Fiscal 2018				Fiscal 2017			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
	(in millions)							
Net sales by segment:								
Americas	$354.6	$341.5	$353.2	$380.5	$329.7	$324.8	$314.0	$363.8
EMEA	199.1	197.9	224.9	227.6	197.1	180.6	186.1	199.3
Asia	68.9	77.9	80.8	74.9	73.8	70.6	63.6	63.7
Total	$622.6	$617.3	$658.9	$683.0	$600.6	$576.0	$563.7	$626.8
Segment net sales as % of total:								
Americas	56.9 %	55.3 %	53.6 %	55.7 %	54.9 %	56.4 %	55.7 %	58.1 %
EMEA	32.0	32.1	34.1	33.3	32.8	31.4	33.0	31.8
Asia	11.1	12.6	12.3	11.0	12.3	12.2	11.3	10.1
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Quarterly net sales by product line were as follows:

	Fiscal 2018				Fiscal 2017			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
	(in millions)							
Net sales by product line:								
Reserve power	$305.2	$292.2	$327.0	$323.5	$296.0	$277.4	$271.3	$297.5
Motive power	317.4	325.1	331.9	359.5	304.6	298.6	292.4	329.3
Total	$622.6	$617.3	$658.9	$683.0	$600.6	$576.0	$563.7	$626.8
Product line net sales as % of total:								
Reserve power	49.0 %	47.3 %	49.6 %	47.4 %	49.3 %	48.2 %	48.1 %	47.5 %
Motive power	51.0	52.7	50.4	52.6	50.7	51.8	51.9	52.5
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Market Risks

Our cash flows and earnings are subject to fluctuations resulting from changes in raw material costs, foreign currency exchange rates and interest rates. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. Our policy does not allow speculation in derivative instruments for profit or execution of derivative instrument contracts for which there are no underlying exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as needed.

Counterparty Risks

We have entered into lead forward purchase contracts and foreign exchange forward and purchased option contracts to manage the risk associated with our exposures to fluctuations resulting from changes in raw material costs and foreign currency

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exchange rates. The Company's agreements are with creditworthy financial institutions. Those contracts that result in a liability position at March 31, 2018 are $4.5 million (pre-tax) and the vast majority of these will settle within one year. Those contracts that result in an asset position at March 31, 2018 are $0.6 million (pre-tax). The impact on the Company due to nonperformance by the counterparties has been evaluated and not deemed material.

Interest Rate Risks

We are exposed to changes in variable U.S. interest rates on borrowings under our credit agreements, as well as short term borrowings in our foreign subsidiaries.

A 100 basis point increase in interest rates would have increased annual interest expense by approximately $3.0 million on the variable rate portions of our debt.

Commodity Cost Risks—Lead Contracts

We have a significant risk in our exposure to certain raw materials. Our largest single raw material cost is for lead, for which the cost remains volatile. In order to hedge against increases in our lead cost, we have entered into forward contracts with financial institutions to fix the price of lead. A vast majority of such contracts are for a period not extending beyond one year. We had the following contracts outstanding at the dates shown below:

Date	$'s Under Contract (in millions)	# Pounds Purchased (in millions)	Average Cost/Pound	Approximate % of Lead Requirements (1)
March 31, 2018	$72.2	62.9	$1.15	14%
March 31, 2017	46.6	45.0	1.03	8
March 31, 2016	21.6	27.4	0.79	6

(1) Based on the fiscal year lead requirements for the periods then ended.

We estimate that a 10% increase in our cost of lead would have increased our annual cost of goods sold by approximately $69 million for the fiscal year ended March 31, 2018.

Foreign Currency Exchange Rate Risks

We manufacture and assemble our products globally in the Americas, EMEA and Asia. Approximately 50% of our sales and expenses are transacted in foreign currencies. Our sales revenue, production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report our financial statements in U.S. dollars, our financial results are affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Euro, Swiss franc, British pound, Polish zloty, Chinese renminbi and Mexican peso.

We quantify and monitor our global foreign currency exposures. Our largest foreign currency exposure is from the purchase and conversion of U.S. dollar based lead costs into local currencies in Europe. Additionally, we have currency exposures from intercompany financing and intercompany and third party trade transactions. On a selective basis, we enter into foreign currency forward contracts and purchase option contracts to reduce the impact from the volatility of currency movements; however, we cannot be certain that foreign currency fluctuations will not impact our operations in the future.

We hedge at any time, approximately 10% - 15% of the nominal amount of our known annual foreign exchange transactional exposures. We primarily enter into foreign currency exchange contracts to reduce the earnings and cash flow impact of the variation of non-functional currency denominated receivables and payables. The vast majority of such contracts are for a period not extending beyond one year.

Gains and losses resulting from hedging instruments offset the foreign exchange gains or losses on the underlying assets and liabilities being hedged. The maturities of the forward exchange contracts generally coincide with the settlement dates of the related transactions. Realized and unrealized gains and losses on these contracts are recognized in the same period as gains and losses on the hedged items. We also selectively hedge anticipated transactions that are subject to foreign exchange exposure,

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primarily with foreign currency exchange contracts, which are designated as cash flow hedges in accordance with Topic 815 - Derivatives and Hedging.

At March 31, 2018 and 2017, we estimate that an unfavorable 10% movement in the exchange rates would have adversely changed our hedge valuations net unrealized gains by approximately $2.1 million and $3.2 million, respectively.

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ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

Contents

EnerSys
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of EnerSys

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of EnerSys (the Company) as of March 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended March 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 30, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company‘s auditor since 1998.

Philadelphia, Pennsylvania
May 30, 2018

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of EnerSys

Opinion on Internal Control over Financial Reporting

We have audited EnerSys' internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, EnerSys (the Company) maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated May 30, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
May 30, 2018

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EnerSys
Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Data)

	March 31, 2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$522,118	$500,329
Accounts receivable, net of allowance for doubtful accounts (2018–$12,643; 2017–$12,662)	546,325	486,646
Inventories	414,234	360,694
Prepaid and other current assets	56,910	71,246
Total current assets	1,539,587	1,418,915
Property, plant, and equipment, net	390,260	348,549
Goodwill	352,805	328,657
Other intangible assets, net	147,141	153,960
Deferred taxes	44,402	31,587
Other assets	12,730	11,361
Total assets	$2,486,925	$2,293,029
Liabilities and Equity		
Current liabilities:		
Short-term debt	$18,341	$18,359
Current portion of capital lease obligations	89	69
Accounts payable	258,982	222,493
Accrued expenses	214,118	226,510
Total current liabilities	491,530	467,431
Long-term debt, net of unamortized debt issuance costs	579,535	587,609
Capital lease obligations	55	96
Deferred taxes	33,607	45,923
Other liabilities	181,087	83,601
Total liabilities	1,285,814	1,184,660
Commitments and contingencies		
Equity:		
Preferred Stock, $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding at March 31, 2018 and at March 31, 2017	—	—
Common Stock, $0.01 par value per share, 135,000,000 shares authorized, 54,595,105 shares issued and 41,915,000 shares outstanding at March 31, 2018; 54,370,810 shares issued and 43,447,536 shares outstanding at March 31, 2017	546	544
Additional paid-in capital	477,288	464,092
Treasury stock at cost, 12,680,105 shares held as of March 31, 2018 and 10,923,274 shares held as of March 31, 2017	(560,991)	(439,800)
Retained earnings	1,320,549	1,231,444
Accumulated other comprehensive loss	(41,717)	(152,824)
Total EnerSys stockholders' equity	1,195,675	1,103,456
Nonredeemable noncontrolling interests	5,436	4,913
Total equity	1,201,111	1,108,369
Total liabilities and equity	$2,486,925	$2,293,029

See accompanying notes.

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EnerSys
Consolidated Statements of Income
(In Thousands, Except Share and Per Share Data)

	Fiscal year ended March 31,		
	2018	**2017**	**2016**
Net sales	$2,581,891	$2,367,149	$2,316,249
Cost of goods sold	1,921,494	1,714,367	1,704,472
Inventory adjustment relating to exit activities	3,457	2,157	—
Gross profit	656,940	650,625	611,777
Operating expenses	382,077	369,863	352,767
Restructuring and other exit charges	5,481	7,160	12,978
Impairment of goodwill	—	12,216	31,411
Impairment of indefinite-lived intangibles and fixed assets	—	1,800	4,841
Legal proceedings charge	—	23,725	3,201
Gain on sale of facility	—	—	(3,420)
Operating earnings	269,382	235,861	209,999
Interest expense	25,001	22,197	22,343
Other (income) expense, net	6,055	969	5,719
Earnings before income taxes	238,326	212,695	181,937
Income tax expense	118,493	54,472	50,113
Net earnings	119,833	158,223	131,824
Net earnings (losses) attributable to noncontrolling interests	239	(1,991)	(4,326)
Net earnings attributable to EnerSys stockholders	$119,594	$160,214	$136,150
Net earnings per common share attributable to EnerSys stockholders:			
Basic	$2.81	$3.69	$3.08
Diluted	$2.77	$3.64	$2.99
Dividends per common share	$0.70	$0.70	$0.70
Weighted-average number of common shares outstanding:			
Basic	42,612,036	43,389,333	44,276,713
Diluted	43,119,856	44,012,543	45,474,130

See accompanying notes.

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EnerSys
Consolidated Statements of Comprehensive Income
(In Thousands)

	Fiscal year ended March 31,		
	2018	**2017**	**2016**
Net earnings	$119,833	$158,223	$131,824
Other comprehensive income (loss):			
Net unrealized (loss) gain on derivative instruments, net of tax	(5,400)	1,587	483
Pension funded status adjustment, net of tax	3,052	(3,694)	1,858
Foreign currency translation adjustment	113,739	(53,730)	8,035
Total other comprehensive income (loss), net of tax	111,391	(55,837)	10,376
Total comprehensive income	231,224	102,386	142,200
Comprehensive income (loss) attributable to noncontrolling interests	523	(2,353)	(5,576)
Comprehensive income attributable to EnerSys stockholders	$230,701	$104,739	$147,776

See accompanying notes.

EnerSys
Consolidated Statements of Changes in Equity

(In Thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total EnerSys Stockholders' Equity	Non-redeemable Non-Controlling Interests	Total Equity
Balance at March 31, 2015	**$ —**	**$ 537**	**$ 525,967**	**$ (376,005)**	**$ 997,376**	**$ (108,975)**	**$ 1,038,900**	**$ 5,540**	**$ 1,044,440**
Stock-based compensation	—	—	19,603	—	—	—	19,603	—	19,603
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	4	(15,209)	—	—	—	(15,205)	—	(15,205)
Tax benefit from stock options	—	—	4,291	—	—	—	4,291	—	4,291
Purchase of common stock	—	—	—	(178,244)	—	—	(178,244)	—	(178,244)
Reissuance of treasury stock to Convertible Notes holders	—	—	—	114,449	—	—	114,449	—	114,449
Adjustment to equity on debt extinguishment	—	—	(84,140)	—	—	—	(84,140)	—	(84,140)
Debt conversion feature	—	—	1,330	—	—	—	1,330	—	1,330
Other	—	—	(477)	—	—	—	(477)	—	(477)
Net earnings (excludes $4,272 of losses attributable to redeemable noncontrolling interests)	—	—	—	—	136,150	—	136,150	(54)	136,096
Dividends ($0.70 per common share)	—	—	732	—	(31,612)	—	(30,880)	—	(30,880)
Redemption value adjustment attributable to redeemable noncontrolling interests	—	—	—	—	(4,272)	—	(4,272)	—	(4,272)
Other comprehensive income:									
Pension funded status adjustment (net of tax expense of $587)	—	—	—	—	—	1,858	1,858	—	1,858
Net unrealized gain (loss) on derivative instruments (net of tax expense of $277)	—	—	—	—	—	483	483	—	483
Foreign currency translation adjustment (excludes ($1,068) related to redeemable noncontrolling interests)	—	—	—	—	—	9,285	9,285	(182)	9,103
Balance at March 31, 2016	**$ —**	**$ 541**	**$ 452,097**	**$ (439,800)**	**$ 1,097,642**	**$ (97,349)**	**$ 1,013,131**	**$ 5,304**	**$ 1,018,435**
Stock-based compensation	—	—	19,185	—	—	—	19,185	—	19,185
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	3	(7,447)	—	—	—	(7,444)	—	(7,444)
Other	—	—	(480)	—	—	—	(480)	—	(480)
Net earnings (excludes $2,021 of losses attributable to redeemable noncontrolling interests)	—	—	—	—	160,214	—	160,214	30	160,244
Dividends ($0.70 per common share)	—	—	737	—	(31,137)	—	(30,400)	—	(30,400)
Redemption value adjustment attributable to redeemable noncontrolling interests	—	—	—	—	4,725	—	4,725	—	4,725
Other comprehensive income:									
Pension funded status adjustment (net of tax expense of $142)	—	—	—	—	—	(3,694)	(3,694)	—	(3,694)
Net unrealized gain (loss) on derivative instruments (net of tax expense of $929)	—	—	—	—	—	1,587	1,587	—	1,587
Foreign currency translation adjustment (excludes $59 related to redeemable noncontrolling interests)	—	—	—	—	—	(53,368)	(53,368)	(421)	(53,789)
Balance at March 31, 2017	**$ —**	**$ 544**	**$ 464,092**	**$ (439,800)**	**$ 1,231,444**	**$ (152,824)**	**$ 1,103,456**	**$ 4,913**	**$ 1,108,369**
Stock-based compensation	—	—	19,453	—	—	—	19,453	—	19,453
Shares issued under equity awards (taxes paid related to net share settlement of equity awards), net	—	2	(6,533)	—	—	—	(6,531)	—	(6,531)
Purchase of common stock	—	—	—	(121,191)	—	—	(121,191)	—	(121,191)
Other	—	—	(402)	—	(137)	—	(539)	—	(539)

Net earnings	—	—	—	—	119,594	—	119,594	239	119,833
Dividends ($0.70 per common share)	—	—	678	—	(30,352)	—	(29,674)	—	(29,674)
Other comprehensive income:									
Pension funded status adjustment (net of tax benefit of $808)	—	—	—	—	—	3,052	3,052	—	3,052
Net unrealized gain (loss) on derivative instruments (net of tax benefit of $2,071)	—	—	—	—	—	(5,400)	(5,400)	—	(5,400)
Foreign currency translation adjustment	—	—	—	—	—	113,455	113,455	284	113,739
Balance at March 31, 2018	**$ —**	**$ 546**	**$ 477,288**	**$ (560,991)**	**$ 1,320,549**	**$ (41,717)**	**$ 1,195,675**	**$ 5,436**	**$ 1,201,111**

See accompanying notes.

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EnerSys
Consolidated Statements of Cash Flows
(In Thousands)

	Fiscal year ended March 31,		
	2018	**2017**	**2016**
Cash flows from operating activities			
Net earnings	$119,833	$158,223	$131,824
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	54,317	53,945	55,994
Write-off of assets relating to restructuring and other exit charges	3,736	1,435	3,800
Non-cash write-off of property, plant and equipment	—	6,300	—
Impairment of goodwill	—	12,216	31,411
Impairment of indefinite-lived intangibles and fixed assets	—	1,800	4,841
Derivatives not designated in hedging relationships:			
Net (gains) losses	(180)	471	409
Cash proceeds (settlements)	43	(1,225)	648
Provision for doubtful accounts	822	1,794	4,749
Deferred income taxes	(20,313)	1,455	(753)
Legal proceedings accrual / (reversal of legal accrual, net of fees)	—	23,725	(799)
Non-cash interest expense	1,603	1,388	2,794
Stock-based compensation	19,453	19,185	19,603
Loss (gain) on sale of facility	—	—	(4,348)
Gain on disposal of fixed assets	116	(7)	(114)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(32,242)	(13,535)	31,142
Inventories	(38,075)	(42,792)	11,667
Prepaid and other current assets	14,470	3,721	4,751
Other assets	(1,150)	2,034	(331)
Accounts payable	21,266	845	12,178
Accrued expenses	(26,614)	9,333	(4,739)
Other liabilities	93,963	5,719	2,844
Net cash provided by operating activities	211,048	246,030	307,571
Cash flows from investing activities			
Capital expenditures	(69,832)	(50,072)	(55,880)
Purchase of businesses, net of cash acquired	(2,988)	(12,392)	(35,439)
Proceeds from sale of facility	—	—	9,179
Proceeds from disposal of property, plant, and equipment	463	631	1,217
Net cash used in investing activities	(72,357)	(61,833)	(80,923)
Cash flows from financing activities			
Net increase (decrease) in short-term debt	214	(4,600)	4,233
Proceeds from 2017 Revolver borrowings	379,750	—	—
Proceeds from 2011 Revolver borrowings	147,050	262,000	355,800
Repayments of 2017 Revolver borrowings	(244,250)	—	—
Repayments of 2011 Revolver borrowings	(312,050)	(267,000)	(360,800)
Proceeds from 2017 Term Loan	150,000	—	—
Proceeds from Notes	—	—	300,000
Repayments of 2011 Term Loan	(127,500)	(15,000)	(7,500)

Repayments of Convertible Notes	—	—	(172,266)
Debt issuance costs	(2,677)	—	(5,031)
Capital lease obligations and other	(29)	(98)	(127)
Proceeds from the issuance of common stock	958	3	4
Payment of taxes related to net share settlement of equity awards	(7,489)	(7,447)	(15,209)
Excess tax benefits from exercise of stock options and vesting of equity awards	—	—	4,291
Purchase of treasury stock	(121,191)	—	(178,244)
Dividends paid to stockholders	(29,674)	(30,400)	(30,880)
Net cash used by financing activities	(166,888)	(62,542)	(105,729)
Effect of exchange rate changes on cash and cash equivalents	49,986	(18,633)	7,467
Net increase in cash and cash equivalents	21,789	103,022	128,386
Cash and cash equivalents at beginning of year	500,329	397,307	268,921
Cash and cash equivalents at end of year	$ 522,118	$ 500,329	$ 397,307

See accompanying notes.

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Notes to Consolidated Financial Statements
March 31, 2018
(In Thousands, Except Share and Per Share Data)

1. Summary of Significant Accounting Policies

Description of Business

EnerSys (the "Company") and its predecessor companies have been manufacturers of industrial batteries for over 125 years. EnerSys is a global leader in stored energy solutions for industrial applications. The Company manufactures, markets and distributes industrial batteries and related products such as chargers, outdoor cabinet enclosures, power equipment and battery accessories, and provides related after-market and customer-support services for its products.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and any partially owned subsidiaries that the Company has the ability to control. Control generally equates to ownership percentage, whereby investments that are more than 50% owned are generally consolidated, investments in affiliates of 50% or less but greater than 20% are generally accounted for using the equity method, and investments in affiliates of 20% or less are accounted for using the cost method. All intercompany transactions and balances have been eliminated in consolidation.

The Company, in previous years, consolidated certain subsidiaries in which the noncontrolling interest party had within its control the right to require the Company to redeem all or a portion of its interest in the subsidiary. The redeemable noncontrolling interests were reported at their estimated redemption value, and the amount presented in temporary equity was not less than the initial amount reported in temporary equity. Any adjustment to the redemption value impacted retained earnings but did not impact net income or comprehensive income. In fiscal 2017, the Company deconsolidated its joint venture in South Africa and the impact of this deconsolidation was reflected in the Consolidated Statements of Income. As a result, the Company has no redeemable noncontrolling interest on its Consolidated Balance Sheet as of March 31, 2018 and 2017.

Foreign Currency Translation

Results of foreign operations of subsidiaries, whose functional currency is the local currency, are translated into U.S. dollars using average exchange rates during the periods. The assets and liabilities are translated into U.S. dollars using exchange rates as of the balance sheet dates. Gains or losses resulting from translating the foreign currency financial statements are accumulated as a separate component of accumulated other comprehensive income ("AOCI") in EnerSys' stockholders' equity and noncontrolling interests.

Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency of the applicable subsidiary are included in the Consolidated Statements of Income, within "Other (income) expense, net", in the year in which the change occurs.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This occurs when risk and title transfers to the customer, collectibility is reasonably assured and pricing is fixed or determinable. Shipment terms are either shipping point or destination and do not differ significantly between the Company's reporting segments. Amounts invoiced to customers for shipping and handling are classified as revenue. Taxes on revenue producing transactions are not included in net sales.

The Company recognizes revenue from the service of its products when the respective services are performed.

Accruals are made at the time of sale for sales returns and other allowances based on the Company’s historical experience.

Freight Expense

Costs incurred by the Company for outbound freight costs to customers, inbound and transfer freight are classified in cost of goods sold.

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Warranties

The Company's products are warranted for a period ranging from one to twenty years for reserve power batteries and for a period ranging from one to seven years for motive power batteries. The Company provides for estimated product warranty expenses when the related products are sold. The assessment of the adequacy of the reserve includes a review of open claims and historical experience.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased.

Concentration of Credit Risk

Financial instruments that subject the Company to potential concentration of credit risk consist principally of short-term cash investments and trade accounts receivable. The Company invests its cash with various financial institutions and in various investment instruments limiting the amount of credit exposure to any one financial institution or entity. The Company has bank deposits that exceed federally insured limits. In addition, certain cash investments may be made in U.S. and foreign government bonds, or other highly rated investments guaranteed by the U.S. or foreign governments. Concentration of credit risk with respect to trade receivables is limited by a large, diversified customer base and its geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral, such as letters of credit, in certain circumstances.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The allowance is based on management's estimate of uncollectible accounts, analysis of historical data and trends, as well as reviews of all relevant factors concerning the financial capability of its customers. Accounts receivable are considered to be past due based on when payments are received compared to the customer's credit terms. Accounts are written off when management determines the account is uncollectible.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventory consists of material, labor, and associated overhead.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and include expenditures that substantially increase the useful lives of the assets. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows: 10 to 33 years for buildings and improvements and 3 to 15 years for machinery and equipment.

Maintenance and repairs are expensed as incurred. Interest on capital projects is capitalized during the construction period.

Business Combinations

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. The results of operations of the acquired business are included in the Company's operating results from the date of acquisition.

Goodwill and Other Intangible Assets

Goodwill and indefinite-lived trademarks are tested for impairment at least annually and whenever events or circumstances occur indicating that a possible impairment may have been incurred. Goodwill is tested for impairment by determining the fair value of the Company's reporting units. These estimated fair values are based on financial projections, certain cash flow measures, and market capitalization.

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The Company estimates the fair value of its reporting units using a weighting of fair values derived from both the income approach and the market approach. Under the income approach, the Company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit. The weighting of the fair value derived from the market approach ranges from 0% to 50% depending on the level of comparability of these publicly-traded companies to the reporting unit.

In order to assess the reasonableness of the calculated fair values of its reporting units, the Company also compares the sum of the reporting units' fair values to its market capitalization and calculates an implied control premium (the excess of the sum of the reporting units' fair values over the market capitalization). The Company evaluates the control premium by comparing it to control premiums of recent comparable market transactions.

In fiscal 2016, in accordance with the existing guidance under ASC 350, the Company conducted the goodwill impairment test using the two-step process. In the first step, the Company compared the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeded its carrying value, goodwill was not impaired and no further testing was required. If the fair value of the reporting unit was less than the carrying value, the Company performed the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the reporting unit's fair value was allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculated the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill was less than the carrying value, the difference was recorded as an impairment loss.

In fiscal 2017, the Company early adopted ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment”, which simplified the measurement of goodwill impairment by removing the second step of the goodwill impairment test that requires a hypothetical purchase price allocation.

Beginning fiscal 2017, the annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

The indefinite-lived trademarks are tested for impairment by comparing the carrying value to the fair value based on current revenue projections of the related trademarks, under the relief from royalty method. Any excess carrying value over the amount of fair value is recognized as impairment. Any impairment would be recognized in full in the reporting period in which it has been identified.

Finite-lived assets such as customer relationships, patents, and non-compete agreements are amortized on a straight-line basis over their estimated useful lives, generally over periods ranging from 3 to 20 years. The Company reviews the carrying values of these assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated cash flows expected to result from its use and eventual disposition. The Company continually evaluates the reasonableness of the useful lives of these assets.

Impairment of Long-Lived Assets

The Company reviews the carrying values of its long-lived assets to be held and used for possible impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable, based on undiscounted estimated cash flows expected to result from its use and eventual disposition. The factors considered by the Company in performing this assessment include current operating results, trends and other economic factors. In assessing the recoverability of the carrying value of a long-lived asset, the Company must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, the Company may be required to record an impairment loss for these assets.

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Environmental Expenditures

The Company records a loss and establishes a reserve for environmental remediation liabilities when it is probable that an asset has been impaired or a liability exists and the amount of the liability can be reasonably estimated. Reasonable estimates involve judgments made by management after considering a broad range of information including notifications, demands or settlements that have been received from a regulatory authority or private party, estimates performed by independent engineering companies and outside counsel, available facts, existing and proposed technology, the identification of other potentially responsible parties, their ability to contribute and prior experience. These judgments are reviewed quarterly as more information is received and the amounts reserved are updated as necessary. However, the reserves may materially differ from ultimate actual liabilities if the loss contingency is difficult to estimate or if management's judgments turn out to be inaccurate. If management believes no best estimate exists, the minimum probable loss is accrued.

Derivative Financial Instruments

The Company utilizes derivative instruments to mitigate volatility related to interest rates, lead prices and foreign currency exposures. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company recognizes derivatives as either assets or liabilities in the accompanying Consolidated Balance Sheets and measures those instruments at fair value. Changes in the fair value of those instruments are reported in AOCI if they qualify for hedge accounting or in earnings if they do not qualify for hedge accounting. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge is highly effective in achieving offsetting changes in the fair value or cash flows of the asset or liability hedged. Effectiveness is measured on a regular basis using statistical analysis and by comparing the overall changes in the expected cash flows on the lead and foreign currency forward contracts with the changes in the expected all-in cash outflow required for the lead and foreign currency purchases. This analysis is performed on the initial purchases quarterly that cover the quantities hedged. Accordingly, gains and losses from changes in derivative fair value of effective hedges are deferred and reported in AOCI until the underlying transaction affects earnings.

The Company has commodity, foreign exchange and interest rate hedging authorization from the Board of Directors and has established a hedging and risk management program that includes the management of market and counterparty risk. Key risk control activities designed to ensure compliance with the risk management program include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, portfolio stress tests, sensitivity analyses and frequent portfolio reporting, including open positions, determinations of fair value and other risk management metrics.

Market risk is the potential loss the Company and its subsidiaries may incur as a result of price changes associated with a particular financial or commodity instrument. The Company utilizes forward contracts, options, and swaps as part of its risk management strategies, to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, interest rates and/or foreign currency exchange rates. All derivatives are recognized on the balance sheet at their fair value, unless they qualify for the Normal Purchase Normal Sale exemption.

Credit risk is the potential loss the Company may incur due to the counterparty's non-performance. The Company is exposed to credit risk from interest rate, foreign currency and commodity derivatives with financial institutions. The Company has credit policies to manage their credit risk, including the use of an established credit approval process, monitoring of the counterparty positions and the use of master netting agreements.

The Company has elected to offset net derivative positions under master netting arrangements. The Company does not have any positions involving cash collateral (payables or receivables) under a master netting arrangement as of March 31, 2018 and 2017.

The Company does not have any credit-related contingent features associated with its derivative instruments.

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Fair Value of Financial Instruments

The Company groups its recurring, non-recurring and disclosure-only fair value measurements into the following levels when making fair value measurement disclosures:

Level 1	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
Level 3	Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Company and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and / or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and / or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Lead contracts, foreign currency contracts and interest rate contracts generally use an income approach to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., London Interbank Offered Rate—“LIBOR”), forward foreign currency exchange rates (e.g., GBP and euro) and commodity prices (e.g., London Metals Exchange), as well as inputs that may not be observable, such as credit valuation adjustments. When observable inputs are used to measure all or most of the value of a contract, the contract is classified as Level 2. Over-the-counter (OTC) contracts are valued using quotes obtained from an exchange, binding and non-binding broker quotes. Furthermore, the Company obtains independent quotes from the market to validate the forward price curves. OTC contracts include forwards, swaps and options. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs.

When unobservable inputs are significant to the fair value measurement, the asset or liability is classified as Level 3. Additionally, Level 2 fair value measurements include adjustments for credit risk based on the Company’s own creditworthiness (for net liabilities) and its counterparties’ creditworthiness (for net assets). The Company assumes that observable market prices include sufficient adjustments for liquidity and modeling risks. The Company did not have any fair value measurements that transferred between Level 2 and Level 3 as well as Level 1 and Level 2.

Income Taxes

The Company accounts for income taxes using the asset and liability approach, which requires deferred tax assets and liabilities be recognized using enacted tax rates to measure the effect of temporary differences between book and tax bases on recorded assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets, if it is more likely than not some portion or all of the deferred tax assets will not be realized. The need to establish valuation allowances against deferred tax assets is assessed quarterly. The primary factors used to assess the likelihood of realization are expected reversals of taxable temporary timing differences, forecasts of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted into law. Among the significant changes resulting from the law, the Tax Act reduces the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, requires companies to pay a one-time transition tax on unrepatriated cumulative non-U.S. earnings of foreign subsidiaries (“Transition Tax”), and creates new taxes on certain foreign sourced earnings. In accordance with ASC 740, “Income Taxes,” the Company is required to record the effects of tax law changes in the period enacted. The 21% rate was effective at the beginning of the Company's fourth quarter of fiscal 2018, and resulted in the Company using a blended rate for the annual period. The results for fiscal 2018 contain estimates of the impact of the Tax Act in regard to deferred tax balances and the Transition Tax as permitted by Staff Accounting Bulletin 118 “SAB 118” issued by the Securities and Exchange Commission on December 22, 2017. These amounts are considered provisional and may be affected by future guidance if and when issued.

The Company recognizes tax related interest and penalties in income tax expense in its Consolidated Statement of Income.
With respect to accounting for uncertainty in income taxes, the Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit. If the more likely than not threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the Transition Tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be
indefinitely reinvested in foreign operations.

Deferred Financing Fees

Debt issuance costs that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense over the life of the underlying indebtedness, adjusted to reflect any early repayments and are shown as a deduction from long-term debt.

Stock-Based Compensation Plans

The Company measures the cost of employee services received in exchange for the award of an equity instrument based on the grant-date fair value of the award, with such cost recognized over the applicable vesting period.

Market condition-based awards

The Company grants two types of market condition-based awards - market share units and performance market share units.

The fair value of the market share units is estimated at the date of grant using a binomial lattice model with the following assumptions: a risk-free interest rate, dividend yield, time to maturity and expected volatility. These units cliff vest on the third anniversary of the date of grant and are settled in common stock on the first anniversary of the vesting date. Market share units are converted into between zero and two shares of common stock for each unit granted at the end of a three-year performance cycle. The conversion ratio is calculated by dividing the average closing share price of the Company’s common stock during the ninety calendar days immediately preceding the vesting date by the average closing share price of the Company’s common stock during the ninety calendar days immediately preceding the grant date, with the resulting quotient capped at two. This quotient is then multiplied by the number of market share units granted to yield the number of shares of common stock to be delivered on the vesting date.

The fair value of the performance market share units is estimated at the date of grant using a Monte Carlo Simulation. A participant may earn between 0% to 200% of the number of performance market share units granted, based on the total shareholder return (“TSR”) of the Company's common stock over a three-year period. The awards will cliff vest on the third anniversary of the date of grant and are settled in common stock on the first anniversary of the vesting date. The TSR is calculated by dividing the sixty or ninety calendar day average price at end of the period (as applicable) and the reinvested dividends thereon by such sixty or ninety calendar day average price at start of the period. The maximum number of awards earned is capped at 200% of the target award. Additionally, no payout will be awarded in the event that the TSR at the vesting date reflects less than a 25% return from the average price at the grant date. Performance market share units are similar to the market share units except that the targets are more difficult to achieve and may be tied to the TSR of a defined peer group.

The Company recognizes compensation expense using the straight-line method over the life of the market share units and performance market share units except for those issued to certain retirement-eligible participants, which are expensed on an accelerated basis. The Company estimates forfeitures rather than recognizing them when they occur.

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Restricted Stock Units

The fair value of restricted stock units is based on the closing market price of the Company's common stock on the date of grant. These awards generally vest, and are settled in common stock, at 25% per year, over a four year period from the date of grant. The Company recognizes compensation expense using the straight-line method over the life of the restricted stock units.

Stock Options

The fair value of the options granted is estimated at the date of grant using the Black-Scholes option-pricing model utilizing assumptions based on historical data and current market data. The assumptions include expected term of the options, risk-free interest rate, expected volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free rate is based on the rate at the grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated using historical volatility rates based on historical weekly price changes over a term equal to the expected term of the options. The Company's dividend yield is based on historical data. The Company recognizes compensation expense using the straight-line method over the vesting period of the options except for those issued to certain retirement-eligible participants, which are expensed on an accelerated basis.

Earnings Per Share

Basic earnings per common share ("EPS") are computed by dividing net earnings attributable to EnerSys stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. At March 31, 2018, 2017 and 2016, the Company had outstanding stock options, restricted stock units, market share units and performance market share units, which could potentially dilute basic earnings per share in the future. The Convertible Notes (as defined in Note 8), prior to their extinguishment on July 17, 2015, had a dilutive impact on the EPS for fiscal 2016.

Segment Reporting

A segment for reporting purposes is based on the financial performance measures that are regularly reviewed by the chief operating decision maker to assess segment performance and to make decisions about a public entity's allocation of resources. Based on this guidance, the Company reports its segment results based upon the three geographical regions of operations.

- **Americas**, which includes North and South America, with segment headquarters in Reading, Pennsylvania, U.S.A.,
- **EMEA**, which includes Europe, the Middle East and Africa, with segment headquarters in Zug, Switzerland, and
- **Asia**, which includes Asia, Australia and Oceania, with segment headquarters in Singapore.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" providing guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB voted to delay the effective date for interim and annual reporting periods beginning after December 15, 2017, with early adoption permissible one year earlier. The standard permits the use of either the modified retrospective or full retrospective transition methods. In the first half of fiscal 2018, the Company completed an impact assessment of the potential changes from adopting ASU 2014-09. The impact assessment included a review of customer arrangements across all of its global business units and an in-depth analysis of its global revenue processes and accounting policies to identify potential areas where change may be needed to comply with this guidance. The Company has assembled an implementation work team to assess and document the accounting conclusions for the adoption of ASU 2014-09.

The Company adopted the ASU on April 1, 2018, using the modified retrospective transition method. The Company has concluded that the adoption of the ASU will not have a material impact on its accounting for revenue in the consolidated financial statements. The ASU requires the recognition of allowances for estimated sales returns on a gross versus net basis in the Consolidated Statements of Income and presenting the right of return asset and associated refund liability on the Consolidated Balance Sheets separately, which differs from current practice. In addition, the disclosures in the notes to its consolidated financial statements related to revenue recognition will be expanded under the new standards to include the methods the Company uses to recognize revenue, assets and liabilities relating to contracts with its customers, the nature of its performance obligations and the manner by which it determines and allocates transaction prices to the performance obligations, and the significant judgments inherent in its revenue recognition policies. The Company also anticipates implementing enhancements to its internal controls to support its ability to sustain compliance with the standard after adoption.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This update is effective for annual periods beginning after December 15, 2018, using a modified retrospective approach, with early adoption permitted. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740)”: Intra-Entity Transfers of Assets Other than Inventory. ASU 2016-16 requires that an entity recognize the income tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs. This update is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company early adopted the standard on a modified retrospective basis during the first quarter of fiscal 2018 through a cumulative-effect adjustment directly to retained earnings of $137, as of the beginning of the period of adoption.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation—Retirement Benefits (Topic 715)”, which requires an entity to report the service cost component of pension and other postretirement benefit costs in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815)”: Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim period or fiscal year before the effective date. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220)”: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Act. The amount of the reclassification is calculated based on the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts at the date of the enactment of the Tax Act related to items that remained in accumulated other comprehensive income (loss) at that time. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years and early adoption is permitted. The Company is currently assessing the potential impact that the adoption will have on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

The Company reclassified, $12,216 and $31,411 for fiscal year 2017 and 2016, respectively, relating to the impairment of goodwill, in the income statements, cash flow statements and footnotes, to separately present the aggregate amount of goodwill impairment losses consistent with ASC 350-20-45. Such reclassifications had no effect on reported net earnings attributable to EnerSys stockholders, total assets, stockholders' equity, or operating cash flows.

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2. Acquisitions

There were no significant acquisitions in fiscal 2018 and 2017.

In fiscal 2016, the Company completed the acquisition of ICS Industries Pty. Ltd. (ICS), headquartered in Melbourne, Australia, for $34,496, net of cash acquired. ICS is a leading full line shelter designer and manufacturer with installation and maintenance services serving the telecommunications, utilities, datacenter, natural resources and transport industries operating in Australia and serving customers in the Asia Pacific region. The Company acquired tangible and intangible assets, in connection with the acquisition, including trademarks, technology, customer relationships, non-competition agreements and goodwill. Based on the final valuation, trademarks were valued at $1,322, technology at $1,399, customer relationships at $10,211, non-competition agreements at $142 and goodwill was recorded at $13,898. The useful lives of technology were estimated at 10 years, customer relationships were estimated at 11 years and non-competition agreements ranged from 2-5 years. Trademarks were considered to be indefinite-lived assets. There was no tax deductible goodwill associated with this acquisition.

The results of the acquisitions have been included in the Company’s results of operations from the dates of their respective acquisitions. Pro forma earnings and earnings per share computations have not been presented as these acquisitions are not considered significant.

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3. Inventories

	March 31,	
	2018	2017
Raw materials	$92,216	$85,604
Work-in-process	136,068	107,177
Finished goods	185,950	167,913
Total	$414,234	$360,694

4. Property, Plant, and Equipment

Property, plant, and equipment consist of:

	March 31,	
	2018	2017
Land, buildings, and improvements	$273,506	$251,030
Machinery and equipment	657,262	582,105
Construction in progress	49,900	33,418
	980,668	866,553
Less accumulated depreciation	(590,408)	(518,004)
Total	$390,260	$348,549

Depreciation expense for the fiscal years ended March 31, 2018, 2017 and 2016 totaled $45,874, $45,388, and $47,686, respectively. Interest capitalized in connection with major capital expenditures amounted to $1,082, $817, and $1,526 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

5. Goodwill and Other Intangible Assets

Other Intangible Assets

Information regarding the Company's other intangible assets are as follows:

	March 31,					
	2018			2017		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Indefinite-lived intangible assets:						
Trademarks	$97,444	$(953)	$96,491	$96,849	$(953)	$95,896
Finite-lived intangible assets:						
Customer relationships	66,973	(31,500)	35,473	66,187	(24,936)	41,251
Non-compete	2,852	(2,759)	93	2,846	(2,701)	145
Technology	22,769	(8,872)	13,897	22,549	(7,168)	15,381
Trademarks	2,003	(1,151)	852	2,003	(1,066)	937
Licenses	1,491	(1,156)	335	1,474	(1,124)	350
Total	$193,532	$(46,391)	$147,141	$191,908	$(37,948)	$153,960

The Company’s amortization expense related to finite-lived intangible assets was $8,443, $8,557, and $8,308, for the years ended March 31, 2018, 2017 and 2016, respectively. The expected amortization expense based on the finite-lived intangible assets as of March 31, 2018, is $8,405 in fiscal 2019, $8,262 in fiscal 2020, $8,005 in fiscal 2021, $7,922 in fiscal 2022 and $5,670 in fiscal 2023.

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Goodwill

The changes in the carrying amount of goodwill by reportable segment are as follows:

	Fiscal year ended March 31, 2018			
	Americas	EMEA	Asia	Total
Balance at beginning of year	$146,982	$138,813	$42,862	$328,657
Goodwill acquired during the year	3,670	—	—	3,670
Foreign currency translation adjustment	603	17,012	2,863	20,478
Balance at end of year	$151,255	$155,825	$45,725	$352,805

	Fiscal year ended March 31, 2017			
	Americas	EMEA	Asia	Total
Balance at beginning of year	$166,197	$141,392	$45,958	$353,547
Reorganization of reporting structure	(11,628)	11,628	—	—
Goodwill acquired during the year, including purchase accounting adjustments	1,962	—	(840)	1,122
Goodwill impairment charge	(8,646)	(3,570)	—	(12,216)
Foreign currency translation adjustment	(903)	(10,637)	(2,256)	(13,796)
Balance at end of year	$146,982	$138,813	$42,862	$328,657

A reconciliation of goodwill and accumulated goodwill impairment losses, by reportable segment, is as follows:

	March 31, 2018			
	Americas	EMEA	Asia	Total
Gross carrying value	$209,100	$161,978	$50,904	$421,982
Accumulated goodwill impairment charges	(57,845)	(6,153)	(5,179)	(69,177)
Net book value	$151,255	$155,825	$45,725	$352,805

	March 31, 2017			
	Americas	EMEA	Asia	Total
Gross carrying value	$204,827	$144,966	$48,041	$397,834
Accumulated goodwill impairment charges	(57,845)	(6,153)	(5,179)	(69,177)
Net book value	$146,982	$138,813	$42,862	$328,657

Impairment of goodwill, indefinite-lived intangibles and fixed assets

In fiscal 2017, the Company early adopted ASU 2017-04, which eliminated Step 2 from the goodwill impairment test. In the fourth quarter of fiscal 2017, the Company conducted step one of the annual goodwill impairment test which indicated that the fair values of two of its reporting units - Purcell US in the Americas operating segment and Purcell EMEA in the EMEA operating segment - were less than their respective carrying values. Based on the guidance in ASU 2017-04, the Company recognized an impairment charge for the amount by which the carrying amount exceeded the reporting unit’s fair value and recorded a non-cash charge of $8,646 and $3,570, related to goodwill impairment in the Americas and EMEA operating segments, respectively, and $700 and $1,100 related to impairment of indefinite-lived trademarks in the Americas and EMEA operating segments, respectively.

Purcell was acquired in fiscal 2014 during the height of the 4G telecom build-out. After performing to expectations for the first few quarters, its revenue declined as telecom spending in the U.S. curtailed sharply. In fiscal 2016, lower estimated projected revenue and profitability caused by reduced levels of capital spending by major customers in the telecommunications industry was a key factor contributing to the impairment charges recorded in that year. In fiscal 2017, the company transferred the European operations of Purcell to its EMEA operating segment, consistent with its geographical management approach. In the U.S., Purcell received significant orders, but at lower margins, resulting in an impairment in 2017. In Europe, Purcell's sales

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forecasts were reduced in fiscal 2017, as a result of low telecom spending and accordingly recorded an impairment charge as well.

In fiscal 2016, the Company recorded a non-cash charge of $29,579 and $1,832, related to goodwill impairment in the Americas and EMEA operating segments, respectively, $3,420 related to impairment of indefinite-lived trademarks in the Americas and $1,421 related to impairment of fixed assets in the EMEA operating segment.

The Company estimated tax-deductible goodwill to be approximately $18,147 and $19,857 as of March 31, 2018 and 2017, respectively.

6. Prepaid and Other Current Assets

Prepaid and other current assets consist of the following:

	March 31,	
	2018	2017
Prepaid non-income taxes	$22,583	$22,268
Prepaid income taxes	8,921	22,540
Non-trade receivables	4,087	4,318
Other	21,319	22,120
Total	$56,910	$71,246

7. Accrued Expenses

Accrued expenses consist of the following:

	March 31,	
	2018	2017
Payroll and benefits	$50,053	$56,295
Accrued selling expenses	34,831	34,561
Warranty	22,637	20,595
Income taxes payable	19,696	13,708
Freight	15,810	14,583
VAT and other non-income taxes	13,155	11,380
Deferred income	9,387	10,661
Tax Act - Transition Tax	7,800	—
Interest	6,762	6,315
Restructuring	2,909	2,812
Legal proceedings	2,326	25,551
Pension	1,657	1,222
Other	27,095	28,827
Total	$214,118	$226,510

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8. Debt

The following summarizes the Company’s long-term debt:

	As of March 31,			
	2018		2017	
	Principal	Unamortized Issuance Costs	Principal	Unamortized Issuance Costs
5.00% Senior Notes due 2023	$300,000	$ 3,122	$300,000	$ 3,746
2017 Credit Facility, due 2022	285,500	2,843	—	—
2011 Credit Facility, due 2018	—	—	292,500	1,145
	$585,500	$ 5,965	$592,500	$ 4,891
Less: Unamortized issuance costs	5,965		4,891	
Less: Current portion	—		—	
Long-term debt, net of unamortized issuance costs	$579,535		$587,609	

5.00% Senior Notes

The Company's $300,000 5.00% Senior Notes due 2023 (the “Notes”) bear interest at a rate of 5.00% per annum. Interest is payable semiannually in arrears on April 30 and October 30 of each year, commencing on October 30, 2015. The Notes will mature on April 30, 2023, unless earlier redeemed or repurchased in full. The Notes are unsecured and unsubordinated obligations of the Company. The Notes are fully and unconditionally guaranteed (the “Guarantees”), jointly and severally, by certain of its subsidiaries that are guarantors (the “Guarantors”) under the 2011 Credit Facility and its successor, the 2017 Credit Facility. The Guarantees are unsecured and unsubordinated obligations of the Guarantors. The net proceeds from the sale of the Notes in fiscal 2016, were used primarily to repay and retire in full the principal amount of the Company’s senior 3.375% convertible notes (the “Convertible Notes”), as discussed below, as well as fund the accelerated share repurchase program discussed in Note 15.

2017 Credit Facility

On August 4, 2017, the Company entered into a new credit facility (“2017 Credit Facility”). The 2017 Credit Facility matures on September 30, 2022 and comprises a $600,000 senior secured revolving credit facility (“2017 Revolver”) and a $150,000 senior secured term loan (“2017 Term Loan”). The Company's previous credit facility (“2011 Credit Facility”) comprised a $500,000 senior secured revolving credit facility (“2011 Revolver”) and a $150,000 senior secured incremental term loan (the “2011 Term Loan”) with a maturity date of September 30, 2018. On August 4, 2017, the outstanding balance on the
2011 Revolver and the 2011 Term Loan of $240,000 and $123,750, respectively, was repaid utilizing borrowings from the 2017 Credit Facility.

As of March 31, 2018, the Company had $135,500 outstanding on the 2017 Revolver and $150,000 under the 2017 Term Loan.

The quarterly installments payable on the 2017 Term Loan are $1,875 beginning December 31, 2018, $2,813 beginning December 31, 2019 and $3,750 beginning December 31, 2020 with a final payment of $105,000 on September 30, 2022. The 2017 Credit Facility may be increased by an aggregate amount of $325,000 in revolving commitments and /or one or more new tranches of term loans, under certain conditions. Both the 2017 Revolver and the 2017 Term Loan bear interest, at the Company's option, at a rate per annum equal to either (i) LIBOR plus between 1.25% and 2.00% (currently 1.25% and based on the Company's consolidated net leverage ratio) or (ii) the

Base Rate (which equals, for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Effective Rate plus 0.50%, (b) Bank of America “Prime Rate” and (c) the Eurocurrency Base Rate plus 1%; provided that, if the Base Rate shall be less than zero, such rate shall be deemed zero). Obligations under the 2017 Credit Facility are secured by substantially all of the Company’s existing and future acquired assets, including substantially all of the capital stock of the Company’s United States subsidiaries that are guarantors under the 2017 Credit Facility and 65% of the capital stock of certain of the Company’s foreign subsidiaries that are owned by the Company’s United States subsidiaries.

The current portion of the 2017 Term Loan of $3,750 is classified as long-term debt as the Company expects to refinance the future quarterly payments with revolver borrowings under its 2017 Credit Facility.

2011 Credit Facility

As discussed under the 2017 Credit Facility, the 2011 Credit Facility was repaid in full on August 4, 2017. There were no prepayment penalties on loans under the 2011 Credit Facility. Both the revolving loan and the Term Loan under the 2011 Credit Facility bore interest, at the Company's option, at a rate per annum equal to either (i) LIBOR plus between 1.25% and 1.75% (1.25% at March 31, 2017, and based on the Company's consolidated net leverage ratio) or (ii) the Base Rate (which is the highest of (a) the Bank of America prime rate, and (b) the Federal Funds Effective Rate) plus between 0.25% and 0.75% (based on the Company’s consolidated net leverage ratio).

Senior Unsecured 3.375% Convertible Notes

The Company's 3.375% Convertible Notes, with an original face value of $172,500, were issued when the Company’s stock price was trading at $30.19 per share. On May 7, 2015, the Company filed a notice of redemption for all of the Convertible Notes with a redemption date of June 8, 2015 at a price equal to $1,000.66 per $1,000 original principal amount of Convertible Notes, which is equal to 100% of the accreted principal amount of the Convertible Notes being repurchased plus accrued and unpaid interest. Holders were permitted to convert their Convertible Notes at their option on or before June 5, 2015.

Ninety-nine percent of the Convertible Notes holders exercised their conversion rights on or before June 5, 2015, pursuant to which, on July 17, 2015, the Company paid $172,388, in aggregate, towards the principal balance including accreted interest, cash equivalent of fractional shares issued towards conversion premium and settled the conversion premium by issuing, in the aggregate, 1,889,431 shares of the Company's common stock from its treasury shares, thereby resulting in the extinguishment of all of the Convertible Notes as of that date. There was no impact to the income statement from the extinguishment as the fair value of the total settlement consideration transferred and allocated to the liability component approximated the carrying value of the Convertible Notes. The remaining consideration allocated to the equity component resulted in an adjustment to equity of $84,140.

The amount of interest cost recognized for the amortization of the discount on the liability component of the Convertible Notes was $1,330 for the fiscal year ended March 31, 2016.

Interest Rates on Long Term Debt

The weighted average interest rate on the long term debt at March 31, 2018 and March 31, 2017, was 3.7% and 3.3%, respectively.

Interest Paid

The Company paid in cash, $23,527, $20,781 and $15,176, net of interest received, for interest during the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

Covenants

The Company’s financing agreements contain various covenants, which, absent prepayment in full of the indebtedness and other obligations, or the receipt of waivers, would limit the Company’s ability to conduct certain specified business transactions including incurring debt, mergers, consolidations or similar transactions, buying or selling assets out of the ordinary course of business, engaging in sale and leaseback transactions, paying dividends and certain other actions. The Company is in compliance with all such covenants.

Short-Term Debt

As of March 31, 2018 and 2017, the Company had $18,341 and $18,359, respectively, of short-term borrowings from banks. The weighted-average interest rate on these borrowings was approximately 7% for both fiscal years ended March 31, 2018 and 2017.

Letters of Credit

As of March 31, 2018 and 2017, the Company had $3,074 and $2,189, respectively, of standby letters of credit.

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Debt Issuance Costs

In connection with the new 2017 Credit Facility, the Company incurred $2,677 in debt issuance costs and wrote off $301 of unamortized debt issuance costs related to the 2011 Credit Facility. Amortization expense, relating to debt issuance costs, included in interest expense was $1,302, $1,388, and $1,464 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Debt issuance costs, net of accumulated amortization, totaled $5,965 and $4,891 as of March 31, 2018 and 2017, respectively.

Available Lines of Credit

As of March 31, 2018 and 2017, the Company had available and undrawn, under all its lines of credit, $613,234 and $475,947, respectively, including $150,459 and $142,872, respectively, of uncommitted lines of credit as of March 31, 2018 and March 31, 2017.

9. Leases

The Company's future minimum lease payments under operating leases that have noncancelable terms in excess of one year as of March 31, 2018 are as follows:

2019	$27,924
2020	23,790
2021	19,018
2022	14,155
2023	8,280
Thereafter	12,321
Total minimum lease payments	$105,488

Rental expense was $38,146, $35,991, and $34,590 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Certain operating lease agreements contain renewal or purchase options and /or escalation clauses.

10. Other Liabilities

Other liabilities consist of the following:

	March 31,	
	2018	2017
Tax Act - Transition Tax	$89,700	$—
Pension	44,404	42,930
Warranty	27,965	25,521
Deferred income	7,094	4,929
Liability for uncertain tax benefits	1,684	1,562
Other	10,240	8,659
Total	$181,087	$83,601

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11. Fair Value of Financial Instruments

Recurring Fair Value Measurements

The following tables represent the financial assets and (liabilities) measured at fair value on a recurring basis as of March 31, 2018 and March 31, 2017 and the basis for that measurement:

	Total Fair Value Measurement March 31, 2018	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lead forward contracts	$ (3,877)	$ —	$ (3,877)	$ —
Foreign currency forward contracts	22	—	22	—
Total derivatives	$ (3,855)	$ —	$ (3,855)	$ —

	Total Fair Value Measurement March 31, 2017	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lead forward contracts	$ 1,163	$ —	$ 1,163	$ —
Foreign currency forward contracts	(313)	—	(313)	—
Total derivatives	$ 850	$ —	$ 850	$ —

The fair values of lead forward contracts are calculated using observable prices for lead as quoted on the London Metal Exchange (“LME”) and, therefore, were classified as Level 2 within the fair value hierarchy as described in Note 1, Summary of Significant Accounting Policies.

The fair values for foreign currency forward contracts are based upon current quoted market prices and are classified as Level 2 based on the nature of the underlying market in which these derivatives are traded.

Financial Instruments

The fair values of the Company’s cash and cash equivalents approximate carrying value due to their short maturities and are classified as Level 1.

The fair value of the Company’s short-term debt and borrowings under the new 2017 Credit Facility and the previous 2011 Credit Facility (each as defined in Note 8), approximate their respective carrying value, as they are variable rate debt and the terms are comparable to market terms as of the balance sheet dates and are classified as Level 2.

The Company's Notes, with an original face value of $300,000, were issued in April 2015. The fair value of these Notes represent the trading values based upon quoted market prices and are classified as Level 2. The Notes were trading at approximately 102% and 101% of face value on March 31, 2018 and March 31, 2017, respectively.

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The carrying amounts and estimated fair values of the Company's derivatives and Notes at March 31, 2018 and 2017 were as follows:

	March 31, 2018		March 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Derivatives(1)	$22	$22	$1,163	$1,163
Financial liabilities:				
Notes (2)	300,000	304,500	300,000	303,000
Derivatives(1)	$3,877	$3,877	$313	$313

(1) Represents lead and foreign currency forward contracts (see Note 12 for asset and liability positions of the lead and foreign currency forward contracts at March 31, 2018 and March 31, 2017).

(2) The fair value amount of the Notes at March 31, 2018 and March 31, 2017 represents the trading value of the instruments.

Non-recurring fair value measurements

In connection with the annual impairment testing conducted as of January 2, 2017 for fiscal 2017, indefinite-lived trademarks associated with Purcell US and Purcell EMEA were recorded at fair value on a nonrecurring basis at $4,300 and $3,900, respectively, and the remeasurement resulted in an impairment charge of $700 and $1,100, respectively. In determining the fair value of these assets, the Company used royalty rates ranging between 1.3% - 2.5% based on comparable market rates, and used discount rates ranging between 15.0% - 17.0%.

The inputs used to measure the fair value of other intangible assets were largely unobservable and accordingly were also classified as Level 3. The fair value of trademarks, is based on an estimate of the royalties saved that would have been paid to a third party had the Company not owned the trademark. The fair value of other indefinite-lived intangibles was estimated using the income approach, based on cash flow projections of revenue growth rates, taking into consideration industry and market conditions.

12. Derivative Financial Instruments

The Company utilizes derivative instruments to reduce its exposure to fluctuations in commodity prices and foreign exchange rates, under established procedures and controls. The Company does not enter into derivative contracts for speculative purposes. The Company's agreements are with creditworthy financial institutions and the Company anticipates performance by counterparties to these contracts and therefore no material loss is expected.

Derivatives in Cash Flow Hedging Relationships

Lead Forward Contracts

The Company enters into lead forward contracts to fix the price for a portion of its lead purchases. Management considers the lead forward contracts to be effective against changes in the cash flows of the underlying lead purchases. The vast majority of such contracts are for a period not extending beyond one year. At March 31, 2018 and 2017, the Company has hedged the price to purchase notional amounts of approximately 62.9 million pounds and 45.0 million pounds of lead, respectively, for a total purchase price of $72,207 and $46,550, respectively.

Foreign Currency Forward Contracts

The Company uses foreign currency forward contracts and options to hedge a portion of the Company's foreign currency exposures for lead, as well as other foreign currency exposures so that gains and losses on these contracts offset changes in the underlying foreign currency denominated exposures. The vast majority of such contracts are for a period not extending beyond one year. As of March 31, 2018 and 2017, the Company had entered into a total of $54,164 and $30,751, respectively, of such contracts.

In the coming twelve months, the Company anticipates that $4,369 of net pretax loss relating to lead and foreign currency forward contracts will be reclassified from AOCI as part of cost of goods sold. This amount represents the current net

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unrealized impact of hedging lead and foreign exchange rates, which will change as market rates change in the future, and will ultimately be realized in the Consolidated Statements of Income as an offset to the corresponding actual changes in lead costs to be realized in connection with the variable lead cost and foreign exchange rates being hedged.

Derivatives not Designated in Hedging Relationships

Foreign Currency Forward Contracts

The Company also enters into foreign currency forward contracts to economically hedge foreign currency fluctuations on intercompany loans and foreign currency denominated receivables and payables. These are not designated as hedging instruments and changes in fair value of these instruments are recorded directly in the Consolidated Statements of Income. As of March 31, 2018 and 2017, the notional amount of these contracts was $28,486 and $13,560, respectively.

Presented below in tabular form is information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Income:

Fair Value of Derivative Instruments
March 31, 2018 and 2017

	Derivatives and Hedging Activities Designated as Cash Flow Hedges		Derivatives and Hedging Activities Not Designated as Hedging Instruments	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Prepaid and other current assets				
Lead forward contracts	$ —	$ 1,163	$ —	$ —
Foreign currency forward contracts	209	11	—	—
Total assets	$ 209	$ 1,174	$ —	$ —
Accrued expenses				
Lead forward contracts	$ 3,877	$ —	$ —	$ —
Foreign currency forward contracts	—	—	187	324
Total liabilities	$ 3,877	$ —	$ 187	$ 324

The Effect of Derivative Instruments on the Consolidated Statements of Income
For the fiscal year ended March 31, 2018

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ (805)	Cost of goods sold	$ 5,860
Foreign currency forward contracts	(3,524)	Cost of goods sold	(2,718)
Total	$ (4,329)		$ 3,142

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ 180
Total		$ 180

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**The Effect of Derivative Instruments on the Consolidated Statements of Income
For the fiscal year ended March 31, 2017**

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ 7,907	Cost of goods sold	$ 5,803
Foreign currency forward contracts	845	Cost of goods sold	433
Total	$ 8,752		$ 6,236

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (471)
Total		$ (471)

**The Effect of Derivative Instruments on the Consolidated Statements of Income
For the fiscal year ended March 31, 2016**

Derivatives Designated as Cash Flow Hedges	Pretax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Pretax Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
Lead forward contracts	$ (3,361)	Cost of goods sold	$(11,085)
Foreign currency forward contracts	(3,023)	Cost of goods sold	3,941
Total	$ (6,384)		$(7,144)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Pretax Gain (Loss)
Foreign currency forward contracts	Other (income) expense, net	$ (409)
Total		$ (409)

13. Income Taxes

	Fiscal year ended March 31,		
	2018	2017	2016
Current income tax expense			
Current:			
Federal	$115,315	$30,362	$29,082
State	3,461	4,855	4,750
Foreign	20,030	17,800	17,034
Total current income tax expense	138,806	53,017	50,866
Deferred income tax expense (benefit)			
Federal	(9,551)	857	(3,706)

State	789	590	124
Foreign	(11,551)	8	2,829
Total deferred income tax expense (benefit)	(20,313)	1,455	(753)
Total income tax expense	$118,493	$54,472	$50,113

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Earnings before income taxes consists of the following:

	Fiscal year ended March 31,		
	2018	2017	2016
United States	$74,440	$80,436	$64,235
Foreign	163,886	132,259	117,702
Earnings before income taxes	$238,326	$212,695	$181,937

Income taxes paid by the Company for the fiscal years ended March 31, 2018, 2017 and 2016 were $28,044, $45,332 and $44,625, respectively.

U.S. Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. Among the significant changes resulting from the law, the Tax Act reduces the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, requires companies to pay a one-time transition tax on unrepatriated cumulative non-U.S. earnings of foreign subsidiaries, and creates new taxes on certain foreign sourced earnings. In accordance with ASC 740, "Income Taxes," the Company is required to record the effects of tax law changes in the period enacted. As a result of the rate change in the Tax Act, the Company's blended U.S. statutory tax rate for fiscal 2018 is 31.55%.

As of March 31, 2018, the Company has not completed its accounting for the tax effects of enactment of the Tax Act; however, in certain cases, as described below, the Company has made a reasonable estimate of the effects on existing deferred tax balances and the Transition Tax. The results for fiscal 2018 contain estimates of the impact of the Tax Act as permitted by Staff Accounting Bulletin 118 "SAB 118" issued by the Securities and Exchange Commission on December 22, 2017. These amounts are considered provisional and may be affected by future guidance, if and when issued.

As a result of the Tax Act, the fiscal 2018 financial statements include a provisional net tax expense of $83,400 which is comprised of the following:

Foreign tax effects: The Transition Tax is based on the Company's total post-1986 earnings and profits ("E&P") that were previously deferred from U.S. income taxes. The Company recorded a provisional amount for the Transition Tax liability, resulting in an increase in income tax expense of $97,500; an increase of $3,500 from the amount reported in the third quarter of fiscal 2018. The estimated Transition Tax of $97,500 is recorded under current income tax payable and non-current income tax payable, at $7,800 and $89,700, respectively, and is payable over eight years. Further, the Transition Tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the Company finalizes both the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets.

Deferred tax assets and liabilities: The Company remeasured its deferred tax assets and liabilities based on the reduced U.S. federal income tax rate of 21%. However, the Company is still analyzing certain aspects of the Tax Act and refining its calculations, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of the Company's deferred tax balance was a tax benefit of $14,100; a decrease of $606 from the amount reported in the third quarter of fiscal 2018.

In all cases, the Company may adjust these provisional amounts which could potentially affect the measurement and impact on tax expense as the Company refines its calculations within a reasonable period not to exceed one year from the enactment date.

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The following table sets forth the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities:

	March 31,	
	2018	2017
Deferred tax assets:		
Accounts receivable	$1,790	$2,419
Inventories	3,660	6,521
Net operating loss carryforwards	50,928	46,178
Accrued expenses	21,274	29,783
Other assets	16,832	20,282
Gross deferred tax assets	94,484	105,183
Less valuation allowance	(15,255)	(27,053)
Total deferred tax assets	79,229	78,130
Deferred tax liabilities:		
Property, plant and equipment	21,045	24,319
Other intangible assets	46,058	67,388
Other liabilities	1,331	759
Total deferred tax liabilities	68,434	92,466
Net deferred tax assets (liabilities)	$10,795	$(14,336)

The Company has approximately $1,617 in United States federal net operating loss carryforwards, all of which are limited by Section 382 of the Internal Revenue Code, with expirations between 2023 and 2027. The Company has approximately $161,929 of foreign net operating loss carryforwards, of which $115,420 may be carried forward indefinitely and $46,509 expire between fiscal 2019 and fiscal 2034. In addition, the Company also has approximately $33,246 of state net operating loss carryforwards with expirations between fiscal 2019 and fiscal 2038.

As of March 31, 2018 and 2017, the federal valuation allowance was $630 and $1,050, respectively. The decrease is due to the Tax Act rate change. As of March 31, 2018 and 2017, the valuation allowance associated with the state tax jurisdictions was $895 and $705, respectively. As of March 31, 2018 and 2017, the valuation allowance associated with certain foreign tax jurisdictions was $13,730