Financial Section

2018 ANNUAL REPORT
Year Ended March 31, 2018

CONTENTS

Hitachi Metals, Ltd.

Eleven-Year Summary

Hitachi Metals, Ltd. and Consolidated Subsidiaries
As of and for the Years Ended March 31

	Millions of yen (except as otherwise noted)				
	IFRS				
	2018	2017	2016	2015	2014
Results for the period:					
Revenues	¥ 988,303	¥ 910,486	¥ 1,017,584	¥ 1,004,373	¥ 807,794
Cost of sales	(803,607)	(731,153)	(819,433)	(793,517)	(637,081)
Selling, general and administrative expenses	(119,566)	(113,350)	(122,090)	(126,446)	(106,851)
Other income	5,401	14,070	36,416	21,303	5,844
Other expenses	(24,205)	(11,786)	(12,523)	(21,306)	(16,278)
Operating income	46,326	68,267	99,954	84,407	53,428
Income (loss) before income taxes and non-controlling interests	46,985	66,016	96,233	86,391	55,820
Net income (loss) attributable to shareholders of the parent company	42,210	50,593	69,056	70,569	48,133
Cash flows for the period:					
Cash flows from operating activities	39,133	89,391	115,742	108,983	99,171
Cash flows from investing activities	(75,080)	(35,864)	(32,147)	(113,750)	(9,832)
Free cash flows	(35,947)	53,527	83,595	(4,767)	89,339
Growth initiative costs:					
Capital expenditures	91,786	63,843	59,602	51,474	31,987
Depreciation and amortization	46,138	43,039	42,927	39,917	33,762
Research and development	17,749	17,971	19,121	20,903	16,814
At the period-end:					
Total assets	¥ 1,058,832	¥ 1,040,390	¥ 1,033,311	¥ 1,083,450	¥ 848,772
Interest-bearing debt	160,844	194,457	220,376	255,350	177,195
Net assets	570,192	548,746	504,675	476,176	382,840
Number of outstanding shares (thousands)	427,572	427,576	427,579	427,601	427,657
Number of shareholders	29,148	25,302	28,582	26,287	29,308
Number of employees	30,390	28,754	29,157	30,278	26,850
Per share of common stock (yen):					
Net income (loss):					
Basic	¥ 98.72	¥ 118.32	¥ 161.50	¥ 165.02	¥ 116.79
Cash dividends	26.00	26.00	26.00	23.00	17.00
Net assets	1,316.08	1,254.89	1,159.70	1,090.64	870.36
Key financial indicators:					
Operating income margin (%)	4.7	7.5	9.8	8.4	6.6
Return on Sales (ROS) (%)	4.3	5.6	6.8	7.0	6.0
Return on Assets (ROA) (%)	4.5	6.4	9.1	8.9	8.0
Return on Equity (ROE) (%)	7.7	9.8	14.4	16.8	15.6
Shareholders' equity ratio (%)	53.1	51.6	48.0	43.0	43.9
Debt/equity ratio (times)	0.29	0.36	0.44	0.55	0.48

Notes:
1. The amounts are accounted for and presented in accordance with the International Financial Reporting Standards.
2. The translation of Japanese yen amounts into U.S. dollars and euros for the fiscal year ended March 31, 2018, is included in this annual report solely for the convenience of readers outside Japan. The translation has been made at the rates of ¥106.24 = $1 and ¥130.52 = €1, the approximate exchange rates as of March 31, 2018.
3. Diluted net income per share is not provided for the periods presented as there were no common stock with a dilutive effect.
4. Net income (loss) represents net income (loss) attributable to shareholders of the parent company. Net income (loss) per share is calculated by dividing net income (loss) by the average number of outstanding shares for the period. Net assets per share are calculated by dividing net assets less non-controlling interests by the number of outstanding shares as of the period-end.
5. Return on equity (ROE) is computed as the net income (loss) divided by the sum of the average total shareholders' equity and the average total accumulated comprehensive income (the average of beginning and ending of the year).
6. Results for the fiscal year ended March 31, 2014 (FY2014) are presented in accordance with both J-GAAP and IFRS.

Eleven-Year Summary

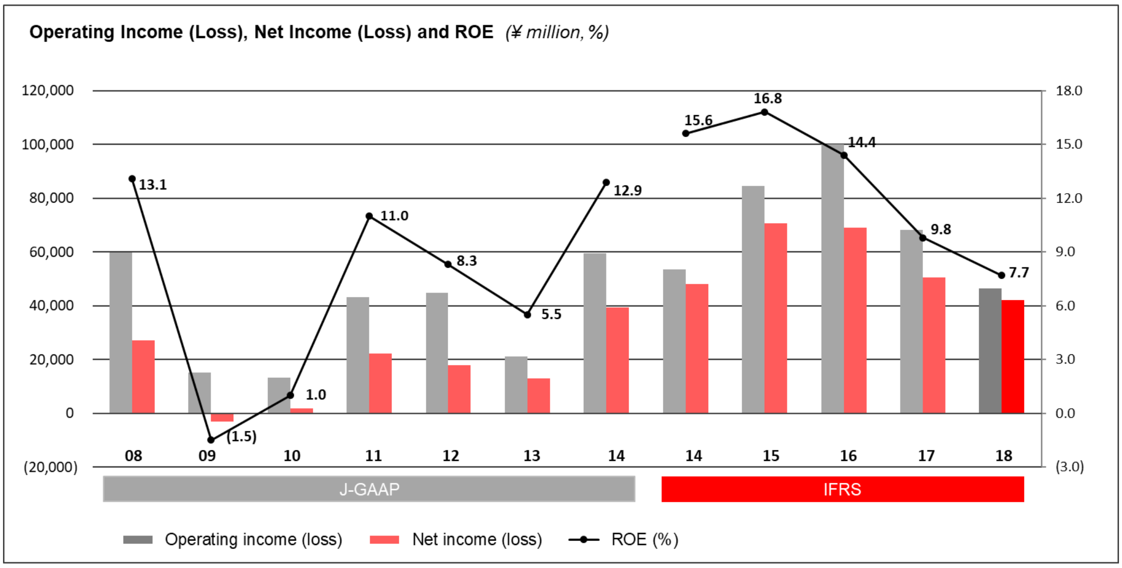
Hitachi Metals, Ltd. and Consolidated Subsidiaries
As of and for the Years Ended March 31

	Thousands of U.S. dollars (except per share amounts)	Thousands of euros (except per share amounts)
	IFRS	
	2018	2018
Results for the period:		
Revenues	$ 9,302,551	€ 7,572,043
Cost of sales	(7,564,072)	(6,156,964)
Selling, general and administrative expenses	(1,125,433)	(916,074)
Other income	50,838	41,381
Other expenses	(227,833)	(185,451)
Operating income	436,050	354,934
Income (loss) before income taxes and non-controlling interests	442,253	359,983
Net income (loss) attributable to shareholders of the parent company	397,308	323,399
Cash flows for the period:		
Cash flows from operating activities	368,345	299,824
Cash flows from investing activities	(706,702)	(575,238)
Free cash flows	(338,357)	(275,414)
Growth initiative costs:		
Capital expenditures	863,950	703,233
Depreciation and amortization	434,281	353,494
Research and development	167,065	135,987
At the period-end:		
Total assets	$ 9,966,416	€ 8,112,412
Interest-bearing debt	1,513,968	1,232,332
Net assets	5,367,018	4,368,618
Number of outstanding shares (thousands)	—	—
Number of shareholders	—	—
Number of employees	—	—
Per share of common stock (U.S. dollars and euros):		
Net income (loss):		
Basic	$ 0.93	€ 0.76
Cash dividends	0.24	0.20
Net assets	12.39	10.08
Key financial indicators:		
Operating income margin (%)	—	—
Return on Sales (ROS) (%)	—	—
Return on Assets (ROA) (%)	—	—
Return on Equity (ROE) (%)	—	—
Shareholders' equity ratio (%)	—	—
Debt/equity ratio (times)	—	—

	Millions of yen (except as otherwise noted) Japanese GAAP			
	2014	2013	2012	2011
Results for the period:				
Net sales	¥ 807,952	¥ 535,779	¥ 556,914	¥ 520,186
Cost of sales	(638,872)	(440,684)	(438,930)	(406,282)
Selling, general and administrative expenses	(109,544)	(74,016)	(73,117)	(70,761)
Operating income	59,536	21,079	44,867	43,143
Income (loss) before income taxes and minority interests	50,796	17,230	36,414	36,061
Net income (loss) attributable to shareholders of the parent company	39,417	12,955	17,886	22,204
Cash flows for the period:				
Cash flows from operating activities	100,557	62,975	3,008	42,688
Cash flows from investing activities	(30,906)	(28,718)	(21,769)	(24,607)
Free cash flows	69,651	34,257	(18,761)	18,081
Growth initiative costs:				
Capital expenditures	31,987	26,688	24,300	20,369
Depreciation and amortization	33,639	24,219	27,544	28,389
Research and development	16,814	11,076	12,153	12,224
At the period-end:				
Total assets	¥ 840,742	¥ 541,286	¥ 579,862	¥ 529,869
Interest-bearing debt	175,958	145,935	169,232	149,822
Net assets	373,198	259,865	240,395	228,010
Number of outstanding shares (thousands)	427,631	365,419	352,429	352,442
Number of shareholders	29,308	16,930	12,417	12,711
Number of employees	26,850	17,308	18,056	18,008
Per share of common stock (yen):				
Net income (loss):				
Basic	¥ 95.65	¥ 36.20	¥ 50.75	¥ 63.00
Cash dividends	17.00	14.00	12.00	12.00
Net assets	848.73	684.96	625.04	591.51
Key financial indicators:				
Operating income margin (%)	7.4	3.9	8.1	8.3
Return on Sales (ROS) (%)	4.9	2.4	3.2	4.3
Return on Assets (ROA) (%)	7.4	3.1	6.6	6.9
Return on Equity (ROE) (%)	12.9	5.5	8.3	11.0
Shareholders' equity ratio (%)	43.2	46.2	38.0	39.3
Debt/equity ratio (times)	0.48	0.58	0.77	0.72

Notes:
1. The amounts are accounted for and presented in accordance with generally accepted accounting principles in Japan.
2. Diluted net income per share is not provided for the periods presented as there were no dilutive common stock with a dilutive effect.
3. Net income (loss) per share is calculated by dividing net income (loss) by the average number of outstanding shares for the period. Net assets per share are calculated by dividing net assets less minority interests by the number of outstanding shares as of the period-end.
4. Hitachi Metals, Ltd. adopted the revised accounting standard for presentation of net assets in the consolidated balance sheet, effective from the year ended March 31, 2007.
5. Return on equity (ROE) is computed as the net income (loss) divided by the sum of the average total shareholders' equity and the average total accumulated comprehensive income (the average of beginning and ending of the year).

	Millions of yen (except as otherwise noted)		
	Japanese GAAP		
	2010	2009	2008
Results for the period:			
Net sales	¥ 431,683	¥ 590,704	¥ 701,075
Cost of sales	(352,382)	(495,948)	(552,459)
Selling, general and administrative expenses	(65,952)	(79,698)	(88,918)
Operating income	13,349	15,058	59,698
Income (loss) before income taxes and minority interests	5,727	(200)	51,427
Net income (loss) attributable to shareholders of the parent company	1,937	(3,016)	27,034
Cash flows for the period:			
Cash flows from operating activities	57,012	32,699	72,106
Cash flows from investing activities	(21,495)	(37,347)	(38,112)
Free cash flows	35,517	(4,648)	33,994
Growth initiative costs:			
Capital expenditures	16,485	43,768	49,327
Depreciation and amortization	30,494	31,814	29,385
Research and development	10,626	13,083	13,283
At the period-end:			
Total assets	¥ 517,984	¥ 530,191	¥ 619,466
Interest-bearing debt	170,664	190,119	190,427
Net assets	212,783	214,576	235,507
Number of outstanding shares (thousands)	352,472	352,498	352,561
Number of shareholders	13,885	14,175	13,472
Number of employees	17,806	18,740	20,308
Per share of common stock (yen):			
Net income (loss):			
Basic	¥ 5.50	¥ (8.56)	¥ 76.48
Cash dividends	12.00	13.00	12.00
Net assets	548.76	550.79	604.22
Key financial indicators:			
Operating income margin (%)	3.1	2.5	8.5
Return on Sales (ROS) (%)	0.4	(0.5)	3.9
Return on Assets (ROA) (%)	1.1	(0.0)	8.2
Return on Equity (ROE) (%)	1.0	(1.5)	13.1
Shareholders' equity ratio (%)	37.3	36.6	34.4
Debt/equity ratio (times)	0.88	0.98	0.89



Financial Review

Adoption of International Financial Reporting Standards (IFRS)

In the fiscal year ended March 31, 2015, Hitachi Metals, Ltd. (the "Company") and its consolidated subsidiaries (collectively, the "Group") voluntarily adopted IFRS for the purposes of better understanding group management, stronger governance, and more efficient business operations.

Market Environment

During the fiscal year ended March 31, 2018, the global economy remained on a modest rebound track primarily in developed countries. Steady economic growth continued in the United States, backed by an improvement in the employment situation and an increase in individual consumption and capital expenditures. European economies, especially in the euro-zone, continued on a moderate recovery path due to an improvement in capital investment and productivity. The Chinese economy also showed some signs of strength due to the effects of the government's various economic measures, and economic growth in other emerging countries in Asia also remained on a recovery track. Amid these conditions, the Japanese economy recovered gradually as a result of the ongoing improvement in the employment and income situations and increased exports and capital investment supported by the steady recovery of the global economy.

Among industries in which the Group operates, in the automobile industry, sales in Japan increased, led by strong demand for new models; and Europe and China also showed firm demand, while sales of new vehicles decreased in the United States compared with the fiscal year ended March 31, 2017. Demand for steel increased mainly in the manufacturing sector, particularly for automobiles and industrial machinery. The number of new housing starts increased in the United States but was on a declining trend in Japan. In the electronics field, mobile device shipments increased.

Business Overview

Under the business circumstances described above, for the fiscal year ended March 31, 2018, revenues of the Group increased by 8.5% to ¥988,303 million compared with the fiscal year ended March 31, 2017. This result was affected mainly by a rise in raw materials prices (a sliding-scale raw materials pricing system) and the depreciation of the yen, in addition to an increase in demand for mainstays. Adjusted operating income decreased by ¥853 million to ¥65,130 million, compared with the fiscal year ended March 31, 2017, mainly due to a rise in costs associated with a drop in profitability of heat-resistant exhaust casting components/aluminum wheels and a rise in raw materials prices, despite an increase in income associated with increased revenue and the effects of cost reduction activities. Operating income decreased by ¥21,941 million to ¥46,326 million, compared with the fiscal year ended March 31, 2017, due to the recording of a gain on business reorganization and others as other revenue in the fiscal year ended March 31, 2017, as well as the recording of impairment loss as other expenses during the fiscal year ended March 31, 2018. For the fiscal year ended March 31, 2018, income before income taxes decreased by ¥19,031 million to ¥46,985 million and net income attributable to shareholders of the parent company decreased by ¥8,383 million to ¥42,210 million, compared with the fiscal year ended March 31, 2017.

Business Results for the Fiscal Year Ended March 31, 2018

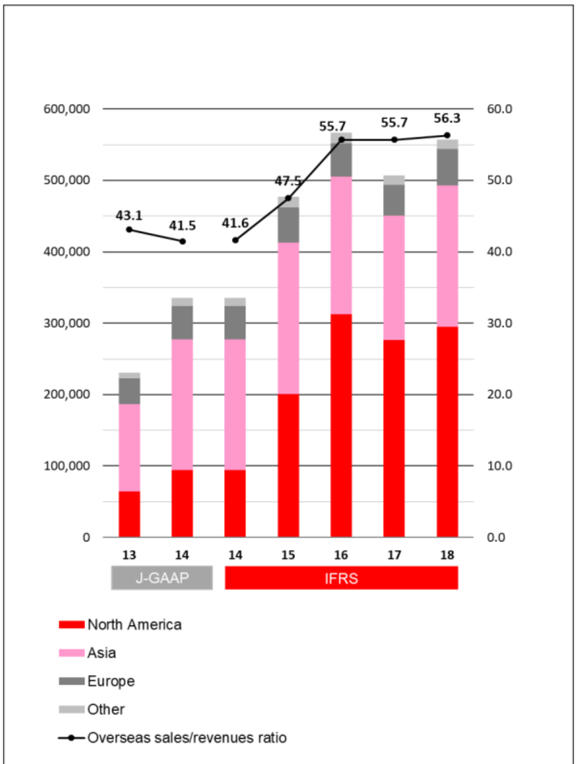
Revenues

Revenues for the fiscal year ended March 31, 2018, increased by ¥77,817 million to ¥988,303 million, or 8.5% year-on-year.

Domestic sales for the fiscal year ended March 31, 2018, accounted for 43.7% of total revenues, an increase by ¥27,939 million, or 6.9% year-on-year, to ¥431,549 million.

Overseas sales increased globally in the fiscal year ended March 31, 2018, amounting to ¥556,754 million, an increase by ¥49,878 million, or 9.8% year-on-year. In particular, sales in North America increased to ¥294,836 million, an increase by ¥18,033 million, or 6.5% year-on-year. Sales in Asia were ¥198,076 million, an increase by ¥23,849 million, or 13.7% year-on-year, and sales in Europe were ¥51,447 million, an increase by ¥8,692 million, or 20.3% year-on-year.

Overseas sales accounted for 56.3% of total revenues in the fiscal year ended March 31, 2018, which was a similar sales rate to that of the previous year. The Group has set the percentage of overseas sales as 54.0% for the fiscal year ending March 31, 2019.



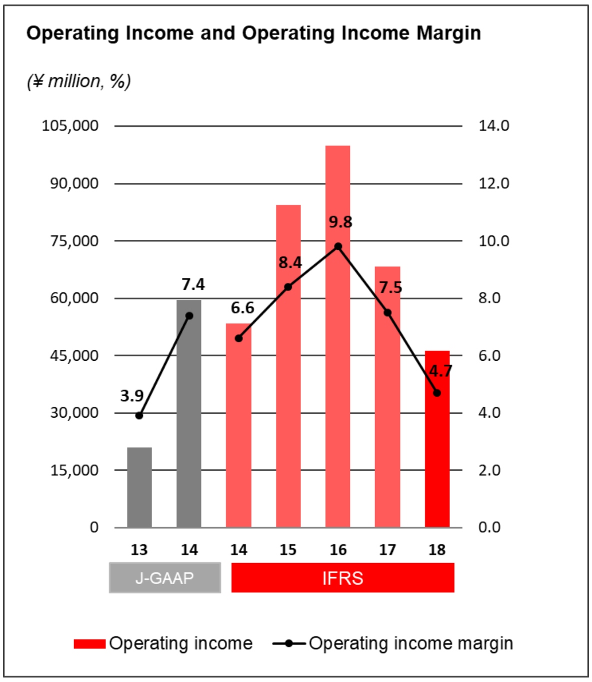
Operating Income

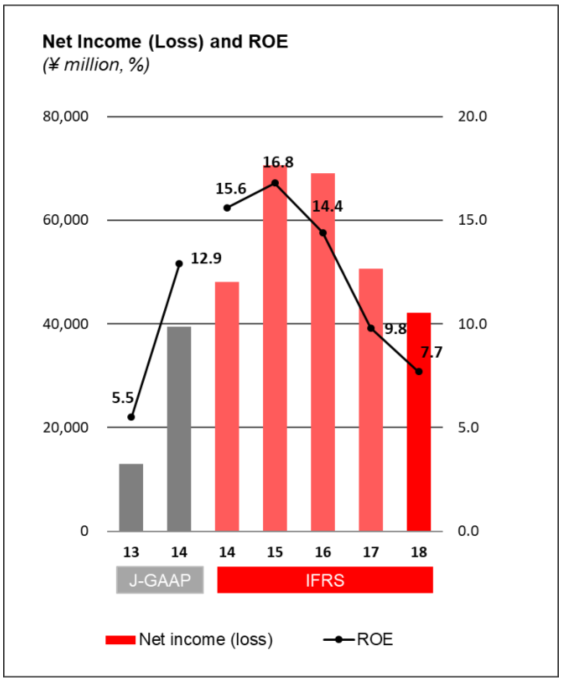
Operating income dropped by ¥21,941 million, or 32.1% year-on-year, to ¥46,326 million. The operating income margin was 4.7%, a decrease of 2.8 percentage points year-on-year. The operating income decreased due to the recording of a gain on business reorganization and others as other revenue in the fiscal year ended March 31, 2017, while impairment losses were recognized as other expenses during the fiscal year ended March 31, 2018.

Net Income and ROE

Interest income less interest charges for the fiscal year ended March 31, 2018, amounted to a net expense of ¥1,885 million, a decrease of ¥579 million, or 23.5% year-on-year. Income before income taxes decreased by ¥19,031 million, or 28.8%, to ¥46,985 million and net income attributable to shareholders of the parent company decreased by ¥8,383 million, or 16.6%, to ¥42,210 million, compared with the fiscal year ended March 31, 2017. Net income for the fiscal year ended March 31, 2018, decreased by ¥8,617 million, or 17.0% year-on-year. Net income per share was ¥98.72, while it was ¥118.32 for the fiscal year ended March 31, 2017.

Return on equity (ROE) decreased to 7.7% for the fiscal year ended March 31, 2018, mainly due to a decrease in net income. Return on assets (ROA) was 4.5%, return on sales (ROS) was 4.3%, and the financial leverage ratio was 1.9 times for the fiscal year ended March 31, 2018.





Business Results by Segment

Business Segment Information

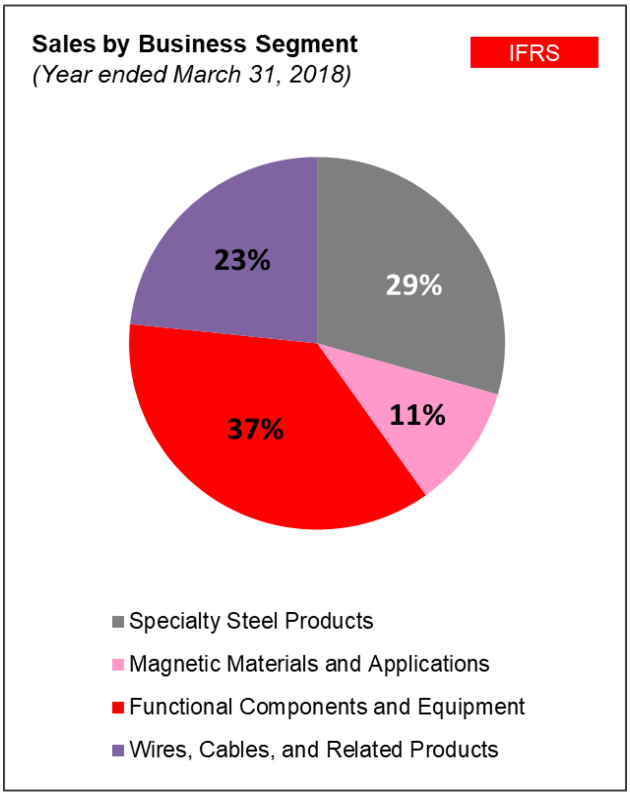
Segment revenues include intersegment sales and transfers. Business segment results are as follows:

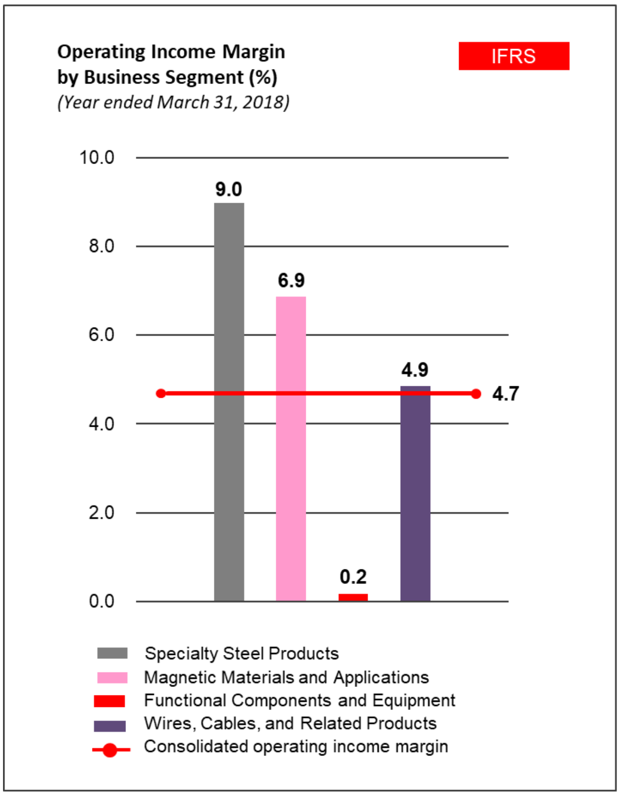
Revenues by Business Segment

	Millions of yen		Percentage
Years ended March 31	**2018**	2017	Increase (decrease)
Revenues (including intersegment sales and transfers):			
Specialty Steel Products	**¥ 290,599**	¥ 243,231	19.5%
Magnetic Materials and Applications	**106,131**	99,756	6.4
Functional Components and Equipment	**360,053**	333,509	8.0
Wires, Cables, and Related Products	**230,532**	232,886	(1.0)
Others	**3,417**	2,963	15.3
Adjustments	**(2,429)**	(1,859)	–
Consolidated revenues	**¥ 988,303**	¥ 910,486	8.5%

Operating Income by Business Segment

	Millions of yen		Difference
Years ended March 31	**2018**	2017	
Operating income:			
Specialty Steel Products	**¥ 26,127**	¥ 22,171	¥ 3,956
Magnetic Materials and Applications	**7,286**	9,301	(2,015)
Functional Components and Equipment	**607**	15,920	(15,313)
Wires, Cables, and Related Products	**11,183**	20,059	(8,876)
Others	**111**	331	(220)
Adjustments	**1,012**	485	527
Consolidated operating income	**¥ 46,326**	¥ 68,267	¥ (21,941)
Operating income margin (%):			
Specialty Steel Products	**9.0%**	9.1%	(0.1)%
Magnetic Materials and Applications	**6.9**	9.3	(2.5)
Functional Components and Equipment	**0.2**	4.8	(4.6)
Wires, Cables, and Related Products	**4.9**	8.6	(3.8)
Consolidated operating income margin (%)	**4.7%**	7.5%	(2.8)%

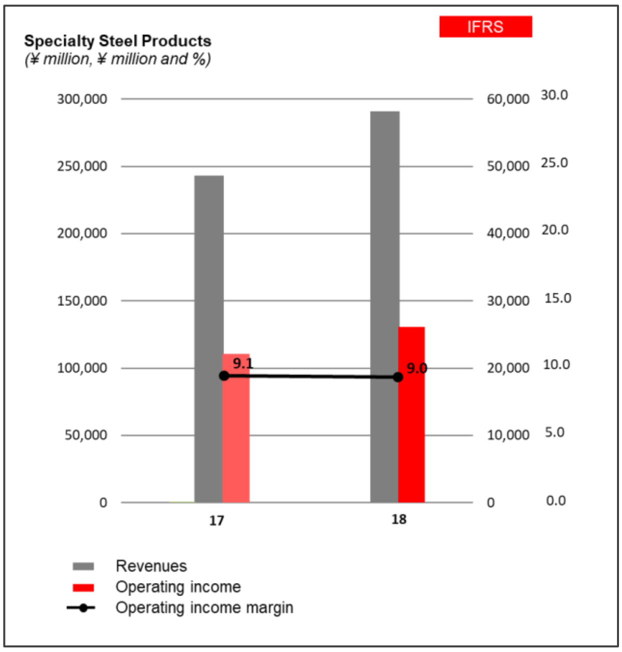




Specialty Steel Products

Revenues

Revenues in the Specialty Steel Products segment for the fiscal year ended March 31, 2018, were ¥290,599 million, an increase of ¥47,368 million, or 19.5%, and adjusted operating income increased by ¥4,328 million, or 18.4%, to ¥27,865 million year on year. Operating income of the segment increased by ¥3,956 million, or 17.8%, to ¥26,127 million for the same period.



Specialty Steels: Sales of tool steel exceeded those for the fiscal year ended March 31, 2017, due to a recovery in demand in both Japan and other countries in Asia. Sales of industrial equipment materials increased overall compared with those for the fiscal year ended March 31, 2017, as sales of environmentally friendly products related to automobiles as well as other industrial components, in particular, components for semiconductor-related equipment, increased. Sales of alloys for electronic products increased significantly year on year due to strong sales of semiconductor package components in addition to increased sales of battery-related and organic EL panel-related components. Aircraft-related and energy-related materials sales were weak.

Rolls: In September 2016, the Group discontinued production of rolls at a Chinese subsidiary for the purpose of concentrating management resources on high value-added products. Meanwhile, sales of injection molding machine parts recovered resulting from an increase in demand for mobile devices. As a result, sales of rolls as a whole increased year on year.

Soft Magnetic Materials and Applied Products: Sales of soft magnetic materials and applied products as a whole fell below those for the fiscal year ended March 31, 2017, due to a drop in demand for amorphous metals, although sales of applied products for mobile devices and automobiles increased because of robust demand.

Capital Expenditures, Depreciation and Amortization, and R&D expenses

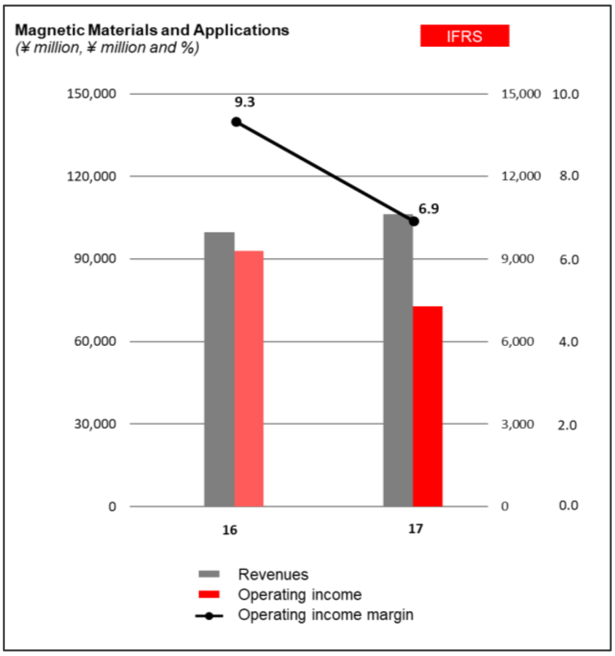
	Billions of yen	
Years ended March 31	**2018**	2017
Capital expenditures	**¥ 27.9**	¥ 17.9
Depreciation and amortization	**14.2**	13.0
Research and development expenses	**5.5**	5.2

Magnetic Materials and Applications

Revenues

Revenues in the Magnetic Materials and Applications segment for the fiscal year ended March 31, 2018, were ¥106,131 million, an increase of ¥6,375 million, or 6.4%, and adjusted operating income increased by ¥279 million, or 3.0%, to ¥9,593 million year on year. Operating income of the segment decreased by ¥2,015 million, or 21.7%, to ¥7,286 million year on year due to an increase in other expenses owing to the recognition of impairment losses related to decreased profitability of the businesses of certain subsidiaries.

Magnets: Sales of rare earth magnets overall exceeded those for the fiscal year ended March 31, 2017. The increase in sales is attributable to increased demand for automotive electronic components for electric power steering and hybrid automobiles and solid sales of industrial equipment, supported by increased demand for robots as well as capital investment-related demand for organic EL panels and semiconductors. Sales of ferrite magnets increased year on year due to strong demand for automotive electronic components, reflecting increased automobile production as well as robust demand for household appliance parts.



Capital Expenditures, Depreciation and Amortization, and R&D expenses

	Billions of yen	
Years ended March 31	**2018**	2017
Capital expenditures	**¥ 20.6**	¥ 13.6
Depreciation and amortization	**7.0**	6.1
Research and development expenses	**3.4**	2.5

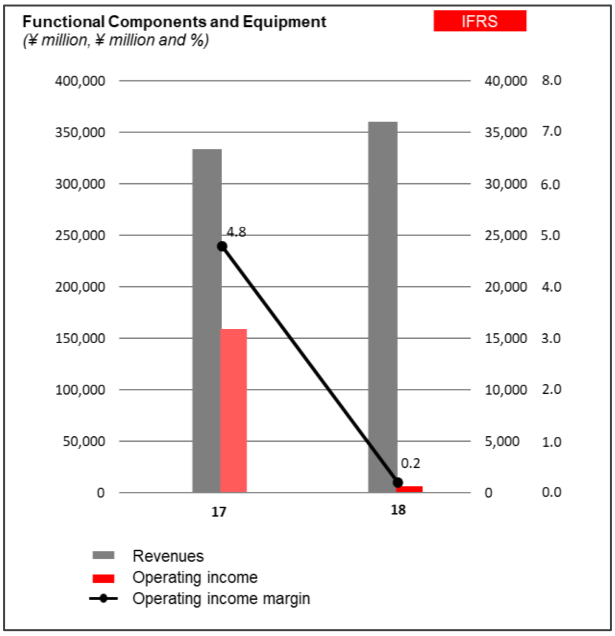
Functional Components and Equipment

Revenues

Revenues in the Functional Components and Equipment segment for the fiscal year ended March 31, 2018, were ¥360,053 million, an increase of ¥26,544 million, or 8.0% year on year, while adjusted operating income decreased by ¥5,654 million, or 32.4%, to ¥11,799 million due to declined profitability of heat-resistant exhaust casting components and aluminum wheels. Also, operating income in this segment decreased by ¥15,313 million, or by 96.2%, to ¥607 million year on year due to an increase in other expenses, such as the recording of impairment losses from the aluminum wheel business.

Casting Components for Automobiles: Despite a slowdown in demand for casting components for pickup trucks and other light trucks as well as passenger vehicles in North America, sales of casting components for automobiles increased as a whole year on year. This was due to an increase in demand for casting components for commercial vehicles, farming machinery, and construction machinery in North America, and increased demand for automobiles in Asia.

Heat-Resistant Exhaust Casting Components: Revenues for heat-resistant exhaust casting components increased year on year due to an increase in demand in the American, European, Asian, and Japanese markets, but profits decreased for the same period due to productivity issues and other factors.



Aluminum Wheels: Sales of aluminum wheels fell below those for the fiscal year ended March 31, 2017, mainly due to decreased demand for passenger vehicles in North America and productivity issues.

Piping Components: Sales of pipe fittings as a whole remained strong due to an increased number of new housing starts in the United States, an increase in large construction projects in Japan, and strong sales performance in devices for semiconductor manufacturing equipment, reflecting an increase in demand for semiconductor-related equipment year on year.

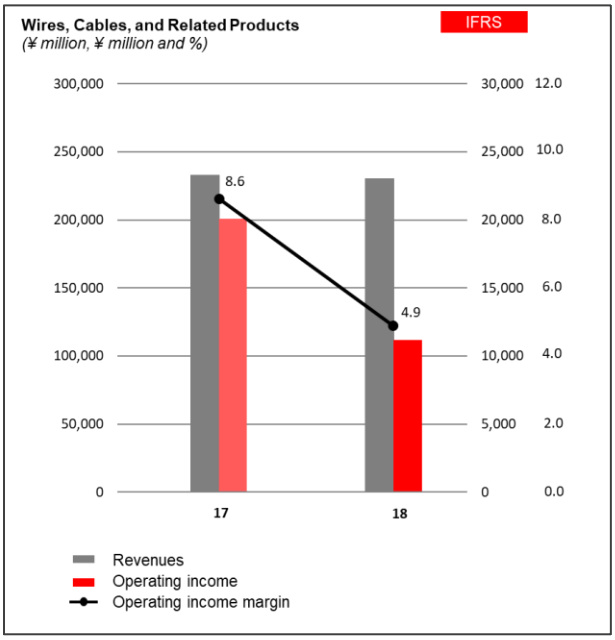
Capital Expenditures, Depreciation and Amortization, and R&D expenses

	Billions of yen	
Years ended March 31	**2018**	2017
Capital expenditures	**¥ 24.7**	¥ 22.5
Depreciation and amortization	**16.7**	14.6
Research and development expenses	**3.5**	2.7

Wires, Cables, and Related Products

Revenues

Due to the effects of a reorganization conducted for the purpose of renewing the Group's business portfolio to grow the business, revenues in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2018, were ¥230,532 million, a decrease of ¥2,354 million, or 1.0%, while adjusted operating income increased by ¥266 million, or 1.8%, to ¥14,947 million year on year because of the expansion of the focused fields. Operating income for the segment decreased by ¥8,876 million, or 44.2%, to ¥11,183 million for the same period, due to the recording of a gain on business reorganization and others as other operating revenue in the fiscal year ended March 31, 2017, while there was an increase in other expenses during the fiscal year ended March 31, 2018.



Electric Wires and Cables: Sales of wires and cables for rolling stock grew significantly, including growth in China. Sales of electric wires for semiconductor manufacturing equipment and FA/robots increased, and magnet wires for automobiles and industrial machinery also posted higher sales.

High-Performance Components: Demand for various sensors, harnesses for electric parking brakes, and hybrid automobiles increased, and demand for brake hoses was also firm. Sales of probe cables for medical use for the fiscal year ended March 31, 2018, were higher than those for the fiscal year ended March 31, 2017, due to increased overseas demand.

Capital Expenditures, Depreciation and Amortization, and R&D expenses

	Billions of yen	
Years ended March 31	**2018**	2017
Capital expenditures	**¥ 8.7**	¥ 7.0
Depreciation and amortization	**6.7**	8.0
Research and development expenses	**5.1**	7.5

Financial Conditions and Liquidity

Source of Funds and Liquidity Management

The Company endeavors to generate stable operating cash flows and maintain liquidity to secure sufficient funds for its business activities and build a solid financial position. In principle, the Group draws largely on operating cash flows during the normal course of business and liquid funds to fund working capital and strategic investments to secure sustainable growth. At the same time, the Group implements reliable and flexible methods to minimize opportunity losses, including raising funds on financial and capital markets as an alternative option to fund growth.

In the fiscal year ended March 31, 2018, the funds generated by an increase in earnings or changes in working capital were primarily allocated to capital expenditure aimed at strengthening the platform to achieve further growth. During the fiscal year ended March 31, 2018, the Group made certain repayments on long-term debts to ensure funding stability.

The Company adopted a Group cash pooling system (CPS) to help manage its own working capital and that of its subsidiaries. In principle, consolidated subsidiaries in Japan procure funds through this CPS system, rather than taking on external debt. By consolidating surplus funds and debts across the Group, the Group has better positioned itself to become more financially efficient. Group companies in the U.S. and China also use this CPS system, through which funds of Group companies in these countries are centrally managed to enhance financial efficiency.

As of March 31, 2018, the current ratio was 153%, a liquidity level that management considers adequate.

Rating Information

It is the Company's top management priority to build and maintain a solid credit rating, and lower financing costs for an appropriate level of liquidity, mobility, and flexibility of financial policy. Rating and Investment Information, Inc. (R&I), a major credit rating agency in Japan, assigned a rating of "A+" for the Company's long-term bonds for the fiscal year ended March 31, 2018. R&I has consistently rated the Company as "A" or above since the fiscal year ended March 31, 2009.

Rating Information

	R&I	
Rating	**2018**	2017
Long-term issue rating	**A+**	A+

Rating Symbols and Definitions:
Rating "A+": Very high creditworthiness supported by some excellent factors.

Financial Position

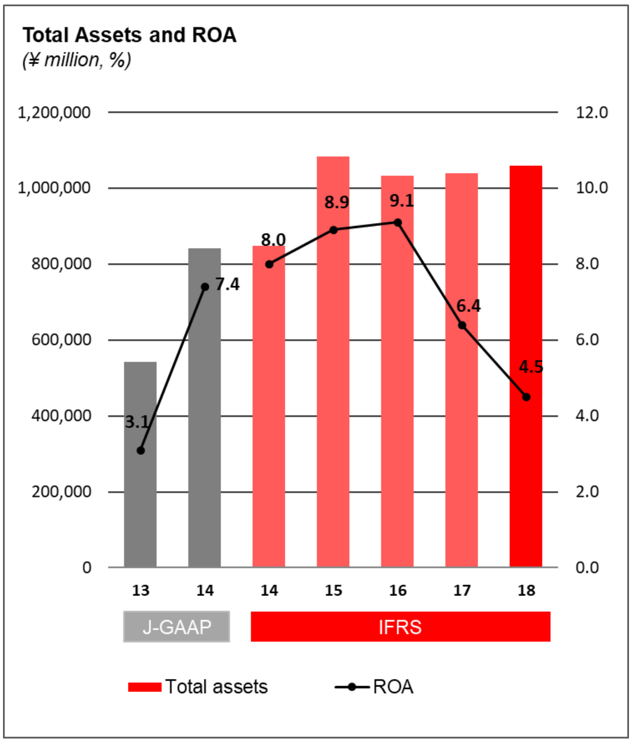
Total assets were ¥1,058,832 million, an increase of ¥18,442 million from March 31, 2017. Current assets were ¥484,032 million, a decrease of ¥7,863 million from March 31, 2017. This was mainly attributable to increases in trade receivables and inventories of ¥32,060 million and ¥36,646 million, respectively, and a decrease in cash and cash equivalents of ¥84,499 million. Non-current assets were ¥574,800 million, an increase of ¥26,305 million from March 31, 2017. This was mainly attributable to an increase in property, plant and equipment of ¥30,651 million and a decrease in goodwill and intangible assets of ¥9,299 million.

ROA was 4.5% in the fiscal year ended March 31, 2018, while 6.4% in the fiscal year ended March 31, 2017. The change in ROA is primarily due to a decrease in income before income taxes for the fiscal year ended March 31, 2018.

Total liabilities were ¥488,640 million, a decrease of ¥3,004 million from March 31, 2017. This was mainly attributable to the net effect of decreases in the current portion of long-term debt and long-term debt of ¥34,515 million in total, and deferred tax liabilities of ¥5,453 million; and increases in trade payables of ¥22,209 million, and other financial liabilities of ¥14,015 million. Total equity was ¥570,192 million, an increase of ¥21,446 million from March 31, 2017. This was mainly attributable to an increase in retained earnings of ¥31,111 million.

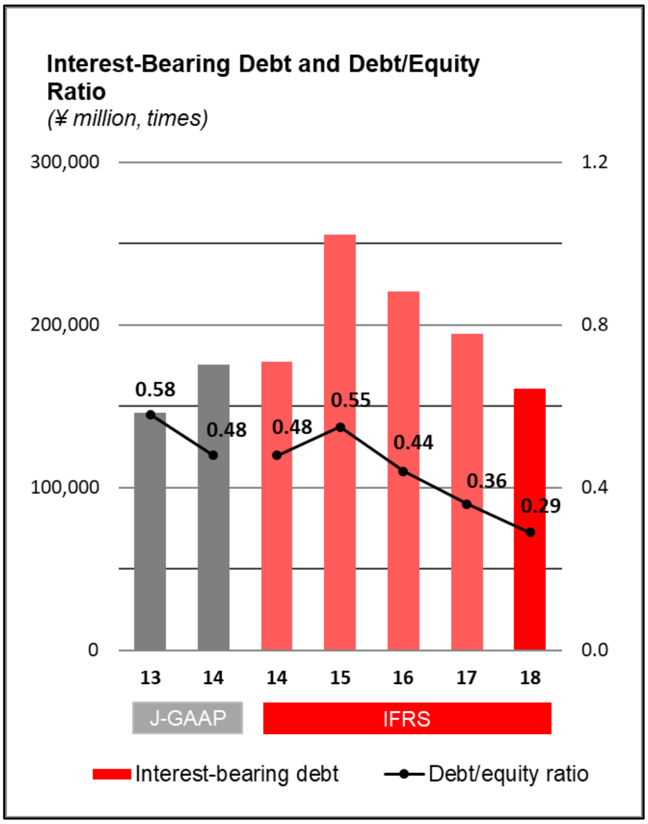
As a result, interest-bearing debt decreased by ¥33,613 million from the fiscal year ended March 31, 2017, to ¥160,844 million as of March 31, 2018, and the debt-to-equity ratio decreased to 0.29.

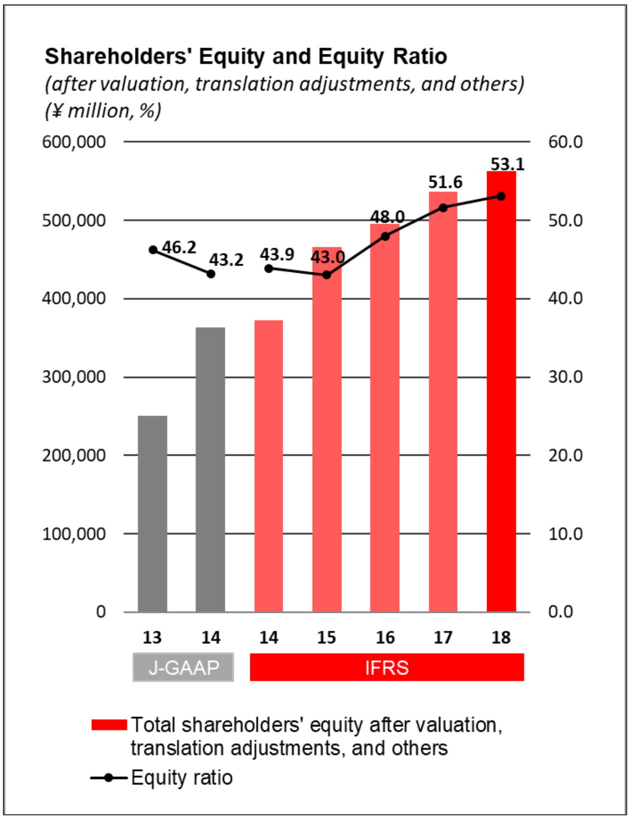
Total equity was ¥570,192 million, an increase of ¥21,446 million from March 31, 2017. This was mainly attributable to an increase in retained earnings of ¥31,111 million from March 31, 2017.



The equity ratio stood at 53.1%, 1.5 percentage points higher than that of the fiscal year ended March 31, 2017, due to an increase in retained earnings of ¥31,111 million from March 31, 2017. Return on invested capital was 4.4% for the current year, 2.1 percentage points lower than that of the fiscal year ended March 31, 2017, mainly due to a decrease in operating income by ¥21,941 million.

For the year ending March 31, 2019, management will continue to reinforce the Company's consolidated financial position by reducing interest-bearing debts further while improving realization of investment effects.





Cash Flows

The Company's operating cash flows are the primary source of funding for operating capital necessary for business activities and capital expenditures. Repayments of interest-bearing debts and cash dividends paid to shareholders are funded mainly from free cash flows.

Cash and cash equivalents as of March 31, 2018, were ¥54,912 million, a decrease of ¥84,499 million from the fiscal year ended March 31, 2017, as a result of net cash used in investing activities and financing activities exceeding cash provided by operating activities. The analysis of cash flows for each category as of March 31, 2018, is as follows:

<Cash Flows from Operating Activities>

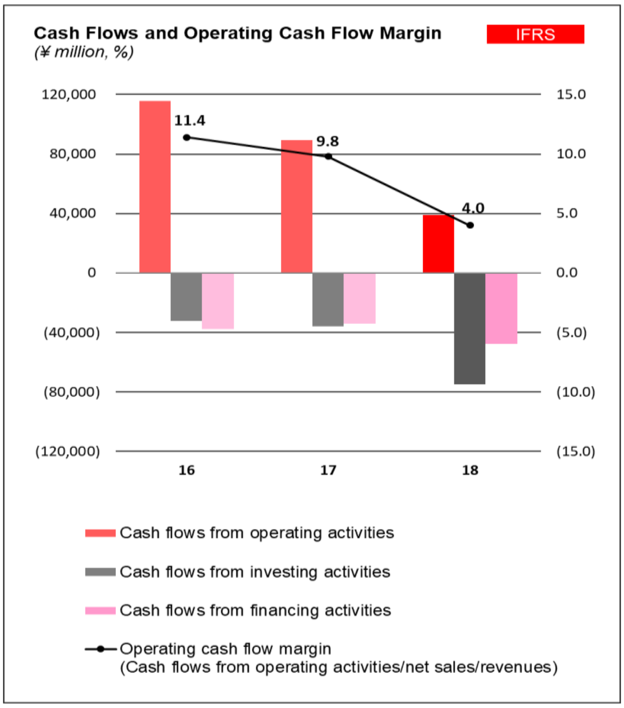
Net cash provided by operating activities was ¥39,133 million. This was mainly attributable to net income of ¥42,075 million, and depreciation and amortization of ¥46,138 million despite payment of ¥48,343 million associated with the increase in working capital, such as inventories.

<Cash Flows from Investing Activities>

Net cash used in investing activities was ¥75,080 million, which was mainly attributable to payment of ¥76,265 million for the purchase of property, plant and equipment.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥47,562 million. This was mainly attributable to the repayment of long-term debts of ¥35,239 million and the payment of dividends of ¥11,294 million to shareholders.

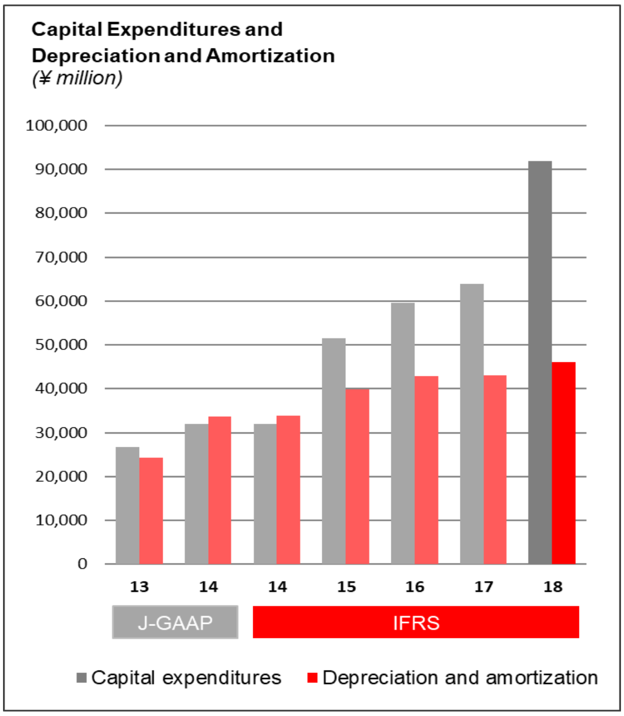


Capital Expenditures, Depreciation, and Amortization

The Group invested strategically to innovate its core business processes for enhancement of production capacity and gaining a competitive edge through streamlining production efficiency. This is in line with the Group's goals of cultivating businesses that focus on products with low environmental impacts and energy efficiency, growth opportunities, and cost competitiveness of market-dominant products.

For the fiscal year ended March 31, 2018, capital expenditures were ¥91,786 million, a 43.8% increase year-on-year, mainly due to enhancing production capacities and streamlining production efficiency in Japan and establishing a production structure for high-value added products in the Specialty Steel Products segment, while building an innovative production line for NEOMAX® rare earth magnets and ferrite magnets in Japan in the Magnets and Applied Products segment. The ratio of capital expenditures (CAPEX) to operating cash flows was 2.35 times for the fiscal year ended March 31, 2018, and the entire expenditures were covered by own funds.

Capital expenditures for individual business segments were as follows: ¥27,974 million for Specialty Steel Products to enhance production capacities and streamline production efficiency in Japan, and to establish a production structure for high value-added products; ¥20,619 million for Magnetic Materials and Applications to build an innovative production line for NEOMAX® rare earth magnets and ferrite magnets in Japan; ¥24,705 million for Functional Components and Equipment with respect to investments for streamlining production efficiency and upgrading production machinery, primarily overseas; and ¥8,710 million for Wires, Cables, and Related Products to upgrade large-scale facilities in Japan and to enhance production capacities overseas.



For the fiscal year ending March 31, 2019, management plans to allocate ¥94,000 million (a 2.4% increase year-on-year) to capital expenditures (including new and additional expenditures). The Specialty Steel Products segment will continue to enhance production capacities and streamline production efficiency, while establishing production bases overseas. The Magnetic Materials and Applications segment will enhance its magnet production capacities in Japan, while reinforcing and expanding the information system component business. The Functional Components and Equipment segment will enhance production capacities and streamline production efficiency mainly overseas. The Wires, Cables, and Related Products segment will enhance production capacities with respect to electric wires and cables and production efficiency mainly in Japan.

For both existing and new initiatives, management will endeavor to improve returns on investment and accelerate realization of investment effects.

Depreciation and amortization for the fiscal year ended March 31, 2018, were ¥46,138 million, which increased by 7.2% year-on-year.

Depreciation and amortization for the fiscal year ended March 31, 2018, for Specialty Steel Products; Magnetic Materials and Applications; Functional Components and Equipment; and Wires, Cables, and Related Products were ¥14,275 million, ¥7,086 million, ¥16,739 million, and ¥6,715 million, respectively.

The Group forecasts depreciation and amortization expenses for the year ending March 31, 2019, to be ¥55,000 million.

Capital Expenditures by Business Segment

	Millions of yen	
Years ended March 31	**2018**	2017
Specialty Steel Products	**¥ 27,974**	¥ 17,968
Magnetic Materials and Applications	**20,619**	13,659
Functional Components and Equipment	**24,705**	22,575
Wires, Cables, and Related Products	**8,710**	7,056
Others	**207**	122
Adjustments	**9,571**	2,463
Total	**¥ 91,786**	¥ 63,843
Operating cash flows	**¥ 39,133**	¥ 89,391
CAPEX to operating cash flow ratio (times)	**2.35**	0.71

Depreciation and Amortization by Business Segment

	Millions of yen	
Years ended March 31	**2018**	2017
Specialty Steel Products	**¥ 14,275**	¥ 13,050
Magnetic Materials and Applications	**7,086**	6,106
Functional Components and Equipment	**16,739**	14,650
Wires, Cables, and Related Products	**6,715**	8,018
Others	**298**	390
Adjustments	**1,025**	825
Total	**¥ 46,138**	¥ 43,039

Research and Development (R&D) Activities

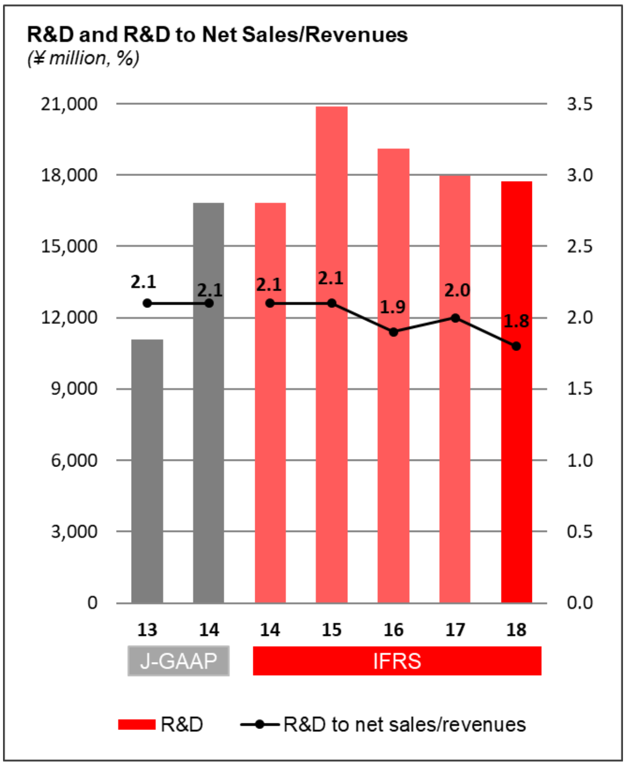
The Company thrives on becoming a global leading high-performance materials company and is pursuing R&D activities for materials and process development, reflecting increasing dynamics of scientific technology and mid- to long-term market trends. Further, in its quest to become a genuinely development-driven company, the Company is undertaking reform of its R&D activities. To supplement reformation efforts, it has completed construction of the Global Research & Innovative Technology Center (GRIT) in April 2018, located in Kumagaya City of Saitama Prefecture in Japan.

R&D workers from each segment will join forces at the GRIT and the Company will ensure a framework is in place to promote R&D activities that integrate cutting-edge materials technology and process technology. In addition, the Company aims to create new businesses and commence commercialization of the new materials by leading global innovation activities through allocation of necessary resources overseas and strengthening existing alliances with Hitachi, Ltd. and research institutions in Japan and overseas.

For the fiscal year ended March 31, 2018, the Group invested ¥17,749 million in R&D, a 1.2% decrease year-on-year. R&D to revenues was 1.8% in the fiscal year ended March 31, 2018.

Breaking down R&D expenses by segment, the Group allocated ¥5,558 million for the Specialty Steel Products segment, ¥3,489 million for the Magnetic Materials and Applications segment, ¥3,563 million for the Functional Components and Equipment segment, and ¥5,139 million for the Wires, Cables, and Related Products segment.

The Group forecasts R&D expenses for the fiscal year ending March 31, 2019, to be ¥21,000 million.



R&D by Business Segment

	Millions of yen	
Years ended March 31	**2018**	2017
Specialty Steel Products	**¥ 5,558**	¥ 5,210
Magnetic Materials and Applications	**3,489**	2,523
Functional Components and Equipment	**3,563**	2,731
Wires, Cables, and Related Products	**5,139**	7,507
Total	**¥ 17,749**	¥ 17,971
Consolidated revenues	**¥ 988,303**	¥ 910,486
R&D to revenues (%)	**1.8%**	2.0%

Outlook

Performance Outlook for the fiscal year ending March 31, 2019

The global economy is expected to continue on a recovery path, although the Group's business environment is filled with uncertainties stemming from political instability in many countries, concerns about further economic slowdown in emerging countries such as China, and sudden fluctuations in foreign exchange rates and resource prices.

In this business environment, the Group aims to carry out its global growth strategies and build structures for sustainable growth based on the Fiscal Year 2018 Medium-Term Management Plan to position itself as one of the world's leading high-performance materials companies.

Business Risk

The following risks may significantly influence investors' decisions. The forward-looking statements stated below are based on certain assumptions and predictions determined by the Group as of the issuance date of the Securities Report (available only in Japanese).

(1) Economic Conditions of Market and Product Demand

Demand for the Group's products is subject to market trends in the following industries: the iron and steel industry; the home electronics-related industry, such as personal computers, smartphones, and semiconductors; the automotive industry; the aviation industry; and the construction industry. The Group sells its products in Japan; the United States; Asia, such as China; and Europe. Accordingly, economic conditions in those countries affect the sales of the Group's products.

The Group endeavors to build a profitable structure that is less subjected to changes in the business climate by raising productivity, reducing fixed and variable costs, and lowering the break-even point. However, declining demand in related industries or worsening economic conditions in the countries in which the Group's products are sold may affect the operating results and financial position of the Group.

(2) Fluctuations in Prices of Raw Materials

Raw materials for the Group's metal products include scrap iron and copper, as well as cobalt, nickel, molybdenum, and rare metals, such as rare earths, for which suppliers and production areas are limited. Prices for these raw materials may fluctuate dramatically depending on market conditions. Trading volume of raw materials may also be affected by resource policies and other factors in production countries.

The Group reflects increases in raw material costs in the selling prices of its products. Nonetheless, there is a time lag between the increase in raw material costs and the revision of selling prices in response to higher costs, and not all of the increased costs will be reflected in selling prices. Accordingly, increases in raw material costs, which are not reflected in selling prices, may affect the operating results and financial position of the Group.

(3) Funding

The Group raises funds through borrowings from financial institutions and long-term financing from capital markets. Accordingly, fluctuations in interest rates or an increase in credit risks may affect the Group's operating results and financial position.

(4) Fluctuations in Foreign Exchange Rates

The Group imports raw materials from overseas countries and exports products manufactured in Japan to overseas markets. Thus, fluctuations in foreign exchange rates affect transactions, assets, and liabilities denominated in foreign currencies. The Group hedges the risks of fluctuations in foreign exchange rates that affect import and export transactions denominated in foreign currencies using financial instruments, including forward exchange contracts and currency options. Nonetheless, significant fluctuations in foreign exchange rates may affect the Group's operating results and financial position. The Group translates the financial statements of foreign consolidated subsidiaries into yen to prepare its consolidated financial statements. Therefore, fluctuations in foreign exchange rates may affect the Group's operating results and financial position.

(5) Fluctuations in Value of Marketable Securities

The Group holds marketable securities which are subject to impairment due to a downturn in securities markets or deteriorating financial positions of issuing companies, which may affect the Group's operating results and financial position.

(6) Overseas Expansion

The Group is actively expanding its operations overseas, including in the United States; Asia, such as China; and Europe in response to maturing Japanese markets and the offshore shifts of customers.

When expanding operations overseas, the Group is required to make large initial investments in manufacturing and other facilities and, in many cases, the Group may require time to commence operations. Overseas expansion entails three inherent risks that may interrupt business activities: (1) regulatory changes in legal and tax systems, (2) underdeveloped social systems and infrastructures, and (3) economic, social, and political conditions. If such risks materialize, they may adversely affect overseas operations and the Group's operating results and financial position.

(7) Competitive Advantage and Development and Commercialization of New Technologies and Products

The Group's competitors offer similar products in the businesses in which the Group operates. Products in the information systems and electronic device fields are faced with rapidly changing customer requirements and technologies, and typically in the parts and materials business segments of this field, the markets for existing products could shrink in a short period of time. Accordingly, the Group's competitiveness is affected by its competitive edge in terms of price, quality, and delivery; and ability to develop and commercialize new technologies and products.

The Group endeavors to maintain its competitiveness by identifying customer needs and developing and commercializing new technologies and products. However, if the Group is unable to respond properly to changes in technologies and customer needs or if lead times of development and commercialization for new technologies or products are prolonged, the Group's growth potential and profitability may deteriorate and the Group's operating results and financial position may be affected.

(8) Intellectual Property Rights

The Group owns and licenses numerous intellectual property rights and also exercises those rights based on its business strategy. The Group respects the intellectual property rights of other companies and when deemed necessary or effective, the Group may obtain licenses to use the intellectual property rights of third parties. If those rights are not protected, maintained, or obtained as planned, the Group's operations or competitiveness may be affected. In cases where the Group becomes a party to litigation regarding intellectual property rights, litigation-related costs would be incurred and may affect operating results and financial position.

(9) Environmental Regulations

The customers who have business with the Group are subjected to extensive environmental and other regulations in their business operations. Regulations have and will become more stringent, and as a result, the Group is required to ensure regulatory compliance with regard to the materials and parts for manufacturing its products, and may incur unavoidable expenditures to meet customers' specifications.

The Group's businesses are subjected to various environmental and occupational health and safety laws and regulations covering air and water pollution, using and handling hazardous substances, rationalizing use of energy, disposing waste, and soil and groundwater contamination. The Group is responsible for risks relating to environment, health, and safety associated with its past, present, and future business activities. As related laws and regulations become more stringent, any costs incurred as a result of stringent laws and regulations may affect the Group's operating results and financial position.

(10) Product Defects

Certain products of the Group, such as important safety components, are required to be exceptionally reliable. The Group has built a rigorous quality control system to prevent manufacturing and distribution of defective products.

However, in case defective products are released in the market, costs for relevant repairs, replacements, recalls, damage compensation claims, and litigation may be incurred and, accordingly, such costs may affect the Group's operating results and financial position.

(11) Laws and Regulations, and Official Restrictions

The Group is subject to economic laws and regulations for trade, foreign exchange, and taxation, and other related regulations and official restrictions in Japan and other countries in which it operates. The Group endeavors to comply with these laws and regulations, and official restrictions by designing and improving internal controls. However, in case the Group is considered as failing to comply with these requirements, administrative penalties would be imposed, or compensation for the damages associated with civil actions may be charged. In cases where these laws, regulations, and official restrictions are revised, such revision may increase related expenses incurred by the Group. An increase in these expenditures may affect the Group's operating results and financial position.

(12) Earthquakes and Other Natural Disasters

The Group may experience turmoil in its logistics or supply chain in case of earthquakes, typhoons, or other natural disasters that damage and destroy its facilities, or even if such disasters do not have direct impacts on its facilities, they could force the Group to halt operations. Epidemics of a new strain of influenza virus or other new infectious diseases may also cause turmoil in the Group's business activities. Should natural disasters or other events lead to direct or indirect turmoil in the Group's operations, they may disrupt the Group's business activities and affect its operating results and financial position.

(13) Information Security

The Group recognizes the use and increasing importance of information systems in its business activities and enforces measures to enhance information security. In cases where information systems are corrupted due to computer viruses or other causes, the Group's operations may be disrupted, and operating results and financial position may be affected.

The Group holds and manages personal information obtained from customers, and various confidential information on the Group, and customers' technologies, research and development, manufacturing, sales, and marketing activities. The Group manages and protects the confidential information; however, there is no guarantee that the Group's information management is effective enough to protect the confidential information from unforeseeable security events. Should the Group discloses such information without proper authority, it may be charged with compensation claims or filed a lawsuit. Such events may adversely affect the Group's operating results, financial position, reputation, or credibility.

(14) Retirement and Severance Benefits

The Group bears a significant amount of retirement benefit costs and obligations determined by actuarial valuations. Inherent in these valuations are key assumptions used in estimating the amount of pension plan assets, including mortality, withdrawal rate, retirement rate, changes in wages, discount rates, and expected return on plan assets. The Group is required to make judgments regarding these key assumptions by taking into account various factors, including personnel demographics, current market conditions, and expected trends in interest rates. Although the Group believes that the key assumptions are reasonable in light of the various underlying factors, there is no assurance that the key assumptions are consistent with actual results. A decrease in the discount rate may result in an actuarial increase in retirement benefit obligations. Changes in key assumptions may affect the Group's operating results and financial position.

(15) Business Relationship with the Parent Company

Hitachi, Ltd. is the Company's parent company and holds 53.5% (including indirect ownership of 0.5%) of the voting rights of the Company as of March 31, 2018. Hitachi, Ltd. has a number of affiliates and engages in a broad range of business activities from product manufacturing to sales and services in segments, including Information & Telecommunication Systems, Social Infrastructure & Industrial Systems, Electronic Systems & Equipment, Construction Machinery, High Functional Materials & Components, Automotive Systems, Smart Life and Ecofriendly Systems, and Others (e.g., manufacture and sale of products including optical disk drives, real estate sales and leasing, and management services for office and other commercial structures). The Company partially represents the High Functional Materials & Components segment. As of the issuance date of the Securities Report (available only in Japanese), two of eight directors of the Company concurrently serve as directors of Hitachi, Ltd. Further, the Company has continuous trade transactions, rendering of services, provision of technologies, and loan agreements with Hitachi, Ltd. While securing the Company's independence, it actively participates in Hitachi Group management and intends to maximize the effective use of Hitachi Group's research and development capabilities, as well as brand and other management resources. Thus, the Group's business may be affected by the management strategy of Hitachi, Ltd.

(16) M&A

The Group may be involved in transactions, including acquiring other entities, establishing joint ventures, and entering into strategic business alliances aimed at developing new technologies and products, enhancing competitiveness in each of the Group's business domains, and expanding business areas. Executing these strategies may require time before the Group creates synergy benefits, as it addresses complex issues involving integration of businesses, technologies, products, and human resources, a process that entails both time and costs. When the strategic transactions are not executed in accordance with a plan, there is a possibility that initially expected benefits may not be obtained. Furthermore, business collaborations might be adversely affected by factors that are beyond the Group's control, such as decisions or capabilities of its strategic alliance partners and market trends. Moreover, significant costs may be incurred owing to post-integration management issues, including restructuring of acquired entities or businesses, which may impair the Group's operating results and financial position.

(17) Securing Resources

In order to maintain the competitive edge of the Group, it is necessary to secure highly skilled human resources for business operations on an ongoing basis. Such resources are, however, scarcely available in the market, and competition with other companies for hiring the necessary talent is becoming intense. As a result, if the Group is unable to recruit the necessary individuals with high skills or retain highly skilled workers, this may cause a shortage in the resources required for business operations and may adversely impact the Group's operating results and financial position.

Table of Contents

Consolidated Financial Statements and Notes

Consolidated Financial Statements

1) Consolidated Statement of Financial Position

	Note	Millions of yen		Thousands of U.S. dollars
		As of March 31, 2018	As of March 31, 2017	As of March 31, 2018
Assets				
Current assets				
Cash and cash equivalents		¥ 54,912	¥ 139,411	$ 516,867
Trade receivables	5	207,628	175,568	1,954,330
Inventories	6	190,202	153,556	1,790,305
Other current assets	21	31,290	23,360	294,522
Total current assets		484,032	491,895	4,556,024
Non-current assets				
Investments accounted for using the equity method	7	27,863	26,239	262,265
Investments in securities and other financial assets	21, 22	21,385	20,964	201,290
Property, plant and equipment	8	355,318	324,667	3,344,484
Goodwill and intangible assets	9	141,896	151,195	1,335,617
Deferred tax assets	10	13,280	11,651	125,000
Other non-current assets		15,058	13,779	141,736
Total non-current assets		574,800	548,495	5,410,392
Total assets		¥ 1,058,832	¥ 1,040,390	$ 9,966,416
Liabilities				
Current liabilities				
Short-term debt	21	¥ 27,203	¥ 26,301	$ 256,052
Current portion of long-term debt	21	27,368	35,462	257,605
Other financial liabilities	21	41,060	26,360	386,483
Trade payables	11, 21	172,994	150,785	1,628,332
Accrued expenses		40,313	37,817	379,452
Advances received		869	858	8,180
Other current liabilities	12	7,153	6,002	67,329
Total current liabilities		316,960	283,585	2,983,434
Non-current liabilities				
Long-term debt	21	106,273	132,694	1,000,311
Other financial liabilities	21	956	1,641	8,998
Retirement and severance benefits	13	57,807	60,299	544,117
Deferred tax liabilities	10	3,305	8,758	31,109
Other non-current liabilities	12	3,339	4,667	31,429
Total non-current liabilities		171,680	208,059	1,615,964
Total liabilities		488,640	491,644	4,599,398
Equity				
Equity attributable to shareholders of the parent company				
Common stock	14	26,284	26,284	247,402
Capital surplus	14	113,518	115,806	1,068,505
Retained earnings	14, 16	407,180	376,069	3,832,643
Accumulated other comprehensive income	15	16,896	19,555	159,036
Treasury stock, at cost	14	(1,158)	(1,151)	(10,900)
Total equity attributable to shareholders of the parent company		562,720	536,563	5,296,687
Non-controlling interests		7,472	12,183	70,331
Total equity		570,192	548,746	5,367,018
Total liabilities and equity		¥ 1,058,832	¥ 1,040,390	$ 9,966,416

See accompanying notes to the consolidated financial statements.

2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

	Note	Millions of yen		Thousands of U.S. dollars
		For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018
Revenues		¥ 988,303	¥ 910,486	$ 9,302,551
Cost of sales		(803,607)	(731,153)	(7,564,072)
Gross profit		184,696	179,333	1,738,479
Selling, general, and administrative expenses		(119,566)	(113,350)	(1,125,433)
Other income	17	5,401	14,070	50,838
Other expenses	17	(24,205)	(11,786)	(227,833)
Operating income		46,326	68,267	436,050
Interest income		449	346	4,226
Other financial income	18	988	248	9,300
Interest charges		(2,334)	(2,810)	(21,969)
Other financial expenses	18	(1,150)	(1,189)	(10,825)
Share of profits of investments accounted for using the equity method	7	2,706	1,154	25,471
Income before income taxes		46,985	66,016	442,253
Income taxes	10	(4,910)	(15,324)	(46,216)
Net income		42,075	50,692	396,037
Net income attributable to:				
Shareholders of the parent company		42,210	50,593	397,308
Non-controlling interests		(135)	99	(1,271)
Net income		¥ 42,075	¥ 50,692	$ 396,037

	Note	Yen		U.S. dollars
		For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018
Earnings per share attributable to shareholders of the parent company				
Basic	19	¥ 98.72	¥ 118.32	$ 0.93
Diluted		–	–	–

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Millions of yen		Thousands of U.S. dollars
		For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018
Net income		¥ 42,075	¥ 50,692	$ 396,037
Other comprehensive income				
Items not to be reclassified into net income				
Net change in fair value of financial assets measured at fair value through other comprehensive income		663	(38)	6,241
Remeasurements of defined benefit plans		2,094	2,628	19,710
Share of other comprehensive income of investments accounted for using the equity method	7	474	(477)	4,462
Total items not to be reclassified into net income		3,231	2,113	30,412
Items that can be reclassified into net income				
Foreign currency translation adjustments		(6,132)	(1,590)	(57,718)
Net change in fair value of cash flow hedges		433	1,114	4,076
Share of other comprehensive income of investments accounted for using the equity method	7	46	(364)	433
Total items that can be reclassified into net income		(5,653)	(840)	(53,210)
Total other comprehensive income	15	(2,422)	1,273	(22,797)
Comprehensive income		¥ 39,653	¥ 51,965	$ 373,240
Comprehensive income attributable to:				
Shareholders of the parent company		¥ 39,569	¥ 51,821	$ 372,449
Non-controlling interests		84	144	791
Comprehensive income		¥ 39,653	¥ 51,965	$ 373,240

See accompanying notes to the consolidated financial statements.

3) Consolidated Statement of Changes in Equity

		Millions of yen							
	Note	Common stock	Capital surplus	Retained earnings	Accumu-lated other comprehen-sive income	Treasury stock, at cost	Total equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
Balance at April 1, 2016		¥ 26,284	¥ 115,806	¥ 336,141	¥ 18,780	¥ (1,146)	¥ 495,865	¥ 8,810	¥ 504,675
Changes in equity									
Net income		–	–	50,593	–	–	50,593	99	50,692
Other comprehensive income		–	–	–	1,228	–	1,228	45	1,273
Dividends to shareholders of the parent company	16	–	–	(11,118)	–	–	(11,118)	–	(11,118)
Dividends to non-controlling interests		–	–	–	–	–	–	(190)	(190)
Acquisition of treasury stock	14	–	–	–	–	(5)	(5)	–	(5)
Sales of treasury stock	14	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	–	–	–	–	–	3,419	3,419
Transfer to retained earnings		–	–	453	(453)	–	–	–	–
Total changes in equity		–	0	39,928	775	(5)	40,698	3,373	44,071
Balance at March 31, 2017		¥ 26,284	¥ 115,806	¥ 376,069	¥ 19,555	¥ (1,151)	¥ 536,563	¥ 12,183	¥ 548,746
Changes in equity									
Net income		–	–	42,210	–	–	42,210	(135)	42,075
Other comprehensive income		–	–	–	(2,641)	–	(2,641)	219	(2,422)
Dividends to shareholders of the parent company	16	–	–	(11,117)	–	–	(11,117)	–	(11,117)
Dividends to non-controlling interests		–	–	–	–	–	–	(177)	(177)
Acquisition of treasury stock	14	–	–	–	–	(7)	(7)	–	(7)
Sales of treasury stock	14	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	(2,288)	–	–	–	(2,288)	(4,618)	(6,906)
Transfer to retained earnings		–	–	18	(18)	–	–	–	–
Total changes in equity		–	(2,288)	31,111	(2,659)	(7)	26,157	(4,711)	21,446
Balance at March 31, 2018		¥ 26,284	¥ 113,518	¥ 407,180	¥ 16,896	¥ (1,158)	¥ 562,720	¥ 7,472	¥ 570,192

See accompanying notes to the consolidated financial statements.

	Note	Thousands of U.S. dollars							
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
Balance at March 31, 2017		$ 247,402	$ 1,090,041	$ 3,539,806	$ 184,064	$ (10,834)	$ 5,050,480	$ 114,674	$ 5,165,154
Changes in equity									
Net income		–	–	397,308	–	–	397,308	(1,271)	396,037
Other comprehensive income		–	–	–	(24,859)	–	(24,859)	2,061	(22,797)
Dividends to shareholders of the parent company	16	–	–	(104,640)	–	–	(104,640)	–	(104,640)
Dividends to non-controlling interests		–	–	–	–	–	–	(1,666)	(1,666)
Acquisition of treasury stock	14	–	–	–	–	(66)	(66)	–	(66)
Sales of treasury stock	14	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	(21,536)	–	–	–	(21,536)	(43,468)	(65,004)
Transfer to retained earnings		–	–	169	(169)	–	–	–	–
Total changes in equity		–	(21,536)	292,837	(25,028)	(66)	246,207	(44,343)	201,864
Balance at March 31, 2018		$ 247,402	$ 1,068,505	$ 3,832,643	$ 159,036	$ (10,900)	$ 5,296,687	$ 70,331	$ 5,367,018

See accompanying notes to the consolidated financial statements.

4) Consolidated Statement of Cash Flows

	Note	Millions of yen		Thousands of U.S. dollars
		For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018
Cash flows from operating activities:				
Net income		¥ 42,075	¥ 50,692	$ 396,037
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		46,138	43,039	434,281
Impairment losses		10,611	1,063	99,878
Share of profits of investments accounted for using the equity method		(2,706)	(1,154)	(25,471)
Financial expenses		2,047	3,405	19,268
Losses on sale of property, plant and equipment		2,340	2,276	22,026
Structural reform expenses		799	1,495	7,521
Net gain on business reorganization and others		(280)	(7,657)	(2,636)
Income taxes		4,910	15,324	46,216
(Increase) decrease in trade receivables		(33,542)	6,092	(315,719)
Increase in inventories		(37,829)	(7,513)	(356,071)
(Increase) decrease in accounts receivable—other		(8,096)	1,257	(76,205)
Increase in trade payables		23,028	3,907	216,755
Increase in accrued expenses		3,181	670	29,942
Increase (decrease) in retirement and severance benefits		697	(2,691)	6,561
Other		(2,975)	(4,882)	(28,003)
Subtotal		50,398	105,323	474,379
Interest and dividends received		1,672	2,497	15,738
Interest paid		(2,583)	(2,864)	(24,313)
Payments for structural reforms		(628)	(762)	(5,911)
Income taxes paid		(9,726)	(14,803)	(91,547)
Net cash provided by operating activities		39,133	89,391	368,345
Cash flows from investing activities:				
Purchase of property, plant and equipment		(76,265)	(63,144)	(717,856)
Purchase of intangible assets		(1,262)	(2,074)	(11,879)
Proceeds from sales of property, plant and equipment		2,073	1,578	19,512
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)		(105)	(773)	(988)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)		918	27,903	8,641
Payments for transfer of business		(86)	–	(809)
Other		(353)	646	(3,323)
Net cash used in investing activities		(75,080)	(35,864)	(706,702)

(Continued)

	Note	Millions of yen		Thousands of U.S. dollars
		For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018
Cash flows from financing activities:				
Net increase in short-term debt	20	2,335	484	21,979
Proceeds from long-term debt	20	3,549	–	33,405
Repayment of long-term debt	20	(35,239)	(26,782)	(331,692)
Proceeds from payments from non-controlling interests		–	3,419	–
Purchase of shares of consolidated subsidiaries from non-controlling interests		(6,906)	–	(65,004)
Dividends paid to shareholders	16	(11,117)	(11,118)	(104,640)
Dividends paid to non-controlling interests		(177)	(190)	(1,666)
Acquisition of common stock for treasury		(7)	(5)	(66)
Proceeds from sales of treasury stock		0	0	0
Net cash used in financing activities		(47,562)	(34,192)	(447,684)
Effect of exchange rate changes on cash and cash equivalents		(990)	(224)	(9,319)
Net (decrease) increase in cash and cash equivalents		(84,499)	19,111	(795,360)
Cash and cash equivalents at the beginning of the year		139,411	120,300	1,312,227
Cash and cash equivalents at the end of the year		¥ 54,912	¥ 139,411	$ 516,867

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1. Nature of the Reporting Company

Hitachi Metals, Ltd. (the "Company") is a Japan-based company whose shares are listed on the First Section of the Tokyo Stock Exchange. Its principal office is located at 2-70 Konan 1-chome, Minato-ku, Tokyo. The Company's consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as well as its share of the profit or loss of associates and joint ventures. The Company and its subsidiaries (the "Group") primarily manufacture and sell specialty steel products, magnetic materials and applications, functional components and equipment, and wires, cables, and related products.

The Group has changed its segment names from "High-Grade Metal Products and Materials" to "Specialty Steel Products" and from "High-Grade Functional Components and Equipment" to "Functional Components and Equipment" effective from April 1, 2017. This change in segment names does not affect segment information.

Note 2. Basis of Presentation

As the Company meets the qualification for a "Specified Company applying Designated IFRSs" pursuant to Article 1-2 of the Ordinance on Terminology, Forms and Preparation Method of Consolidated Financial Statements (Ordinance of Ministry of Finance of Japan Regulation No. 28, 1976), the consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, as permitted by the provision of Article 93 of the above Ordinance.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments measured at fair value, financial instruments measured at fair value through profit or loss (FVTPL), financial instruments measured at fair value through other comprehensive income (FVTOCI), and assets and liabilities associated with defined benefit plans. The consolidated financial statements are presented in millions of Japanese yen. Amounts are rounded to the nearest million yen for presentation.

The accompanying consolidated financial statements were approved by Akitoshi Hiraki, President and Chief Executive Officer, on June 19, 2018.

Management of the Company is required to make a number of judgments, estimates, and assumptions related to the application of accounting policies and reporting of revenues and expenses, and assets and liabilities to prepare the consolidated financial statements in accordance with IFRS. Actual results may differ from those estimates.

Estimates and assumptions are continually reviewed. The effects of a change in accounting estimates, if any, are recognized in the reporting period in which the change was made and in future periods.

The translation of Japanese yen amounts into U.S. dollars as of and for the year ended March 31, 2018, is included in this annual report solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥106.24 = $1, the approximate exchange rate as of March 31, 2018.

The following notes include information regarding judgments in applying accounting policies that could materially affect the Company's consolidated financial statements:
• Note 3. (1) "Basis of Consolidation"
• Note 3. (4) "Financial Instruments" and Note 21. "Financial Instruments and Other Related Information"

The following notes include information regarding uncertainties arising from assumptions and estimates that may materially affect the Company's consolidated financial statements in the following fiscal year:
• Note 3. (9) "Impairment of Non-Financial Assets"
• Note 3. (11) "Post-Employment Benefits" and Note 13. "Employee Benefits"
• Note 3. (12) "Provisions," Note 3. (13) "Contingencies," Note. 12 "Provisions," and Note 25. "Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)"
• Note 3. (15) "Income Taxes" and Note 10. "Deferred Taxes and Income Taxes"

Note 3. Summary of Significant Accounting Policies

(1) Basis of Consolidation

(a) Subsidiaries

Subsidiaries are entities controlled mainly by the Group through direct or indirect ownership of a majority of voting rights.

The Company consolidates all subsidiaries from the date on which the Group acquired control until the date on which the Group loses control.

The financial statements of the Company's subsidiaries have been adjusted if accounting policies applied by such subsidiaries differ from those of the Group, if necessary.

Changes in ownership interest in subsidiaries without a loss of control are accounted for as equity transactions. On the other hand, changes in ownership interest in subsidiaries with a loss of control are accounted for by derecognizing assets and liabilities, non-controlling interests, and accumulated other comprehensive income attributable to the subsidiary.

Financial statements of subsidiaries whose fiscal closing dates differ from the consolidated account closing date are included in the consolidated financial statements on the basis of a provisional account closing as of the consolidated account closing date.

(b) Associates and joint ventures (accounted for using the equity method)
Associates are entities over which the Group has the ability to exercise significant influence over operational and financial policies mainly by holding 20% to 50% ownership directly or indirectly, but does not control such entities.

Joint ventures are entities jointly controlled by more than one party, including the Group, and decisions about operational and financial policies require unanimous consent of all parties where the Group has a right to the net assets of the arrangement.

Investments in associates and joint ventures ("equity-method investees") are accounted for using the equity method.

Consolidated financial statements include changes in net income and other comprehensive income of the equity method investees from the date on which the Group obtains significant influence or joint control over the investees to the date on which it loses significant influence or joint control.

The financial statements of the Group's equity-method investees have been adjusted, if necessary, when the accounting policies of such equity-method investees differ from those of the Group.

(2) Cash Equivalents
The Group considers highly liquid investments with insignificant risk of changes in value and original maturities of three months or less when purchased to be cash equivalents.

(3) Foreign Currency Translation
The consolidated financial statements are presented in Japanese yen, which is also the Company's functional currency.

(a) Foreign currency transactions
Foreign currency transactions are translated into each functional currency of the Group using exchange rates prevailing at the dates of the transactions or rates that approximate such rates. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the end of the reporting period. Foreign exchange gains and losses resulting from currency translation and settlement are recognized in profit or loss.

(b) Translation of the financial statements of foreign operations
Assets and liabilities of the Company's foreign operations are translated into Japanese yen using the exchange rate at the end of the reporting period. Income and expense items are translated at the average exchange rate prevailing during the year.
Foreign exchange gains and losses resulting from the translation of financial statements of foreign operations are included in other comprehensive income.

(4) Financial Instruments
The Group has applied IFRS 9 *Financial Instruments* (issued in November 2009, amended in October 2010 and December 2011) earlier than the mandatory effective date.

(a) Non-derivative financial assets
The Group initially recognizes trade receivables on the actual transaction dates. All other financial assets are initially recognized on the dates on which the Group becomes party to the agreement.

The Group derecognizes financial assets when the contractual rights to cash flows from the financial assets expire or are transferred, and the risks and rewards of ownership of the financial assets are substantially transferred.

Classification and measurement models of non-derivative financial assets are summarized as follows:

<u>Financial assets measured at amortized cost</u>

Financial assets are subsequently measured at amortized cost when they meet the following requirements:

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

Financial assets measured at amortized cost are initially measured at fair value (including direct transaction costs). The carrying amount of financial assets measured at amortized cost is subsequently measured using the effective interest method, less impairment losses when necessary.

Impairment of financial assets measured at amortized cost

The Group evaluates financial assets measured at amortized cost for possible impairment on a periodic basis, but no less frequently than at the end of each quarterly reporting period when there is objective evidence of impairment resulting from one or more events occurring after the initial recognition and when the estimated future cash flows from the financial assets or group of assets can be reliably measured. Objective evidence of impairment includes historical credit loss; the existence of overdue payments; extended payment terms; a negative evaluation by third-party credit rating agencies; excessive debts; and findings indicating a deteriorating financial position or operating results.

An impairment loss is estimated based on the present value of estimated future cash flows of the financial asset discounted at the effective interest rate or an observable market price.

In addition, an impairment loss is recognized based on the actual bad debt ratio calculated based on factors such as historical experience, or the estimated collectible amount, after assessing multiple potential risks associated with a country in which a debtor conducts its business or business environment, including special business customs particular to the region.

In the consolidated statement of financial position, impairment losses of debt securities are directly deducted from their carrying amount and impairment losses of financial assets other than debt securities are indirectly decreased through the allowance account. For financial assets other than debt securities, account balances are generally written off against the allowance only after all means of collection have been exhausted and the recoverability of the assets is considered remote. Write-offs are generally recognized only when a debtor commences bankruptcy or liquidation proceedings because it is considered that all collection efforts will have been exhausted by that time.

FVTPL financial assets

The Group classifies equity instruments not designated as FVTOCI financial assets at the initial recognition and debt instruments not classified as financial assets measured at amortized cost as FVTPL financial assets. These instruments are subsequently measured at fair value and any changes in fair value are recognized in profit or loss.

FVTOCI financial assets

The Group holds certain equity instruments to expand its revenue base by maintaining and strengthening business relations with investees. The Group makes an irrevocable election to designate these equity instruments as FVTOCI financial assets at initial recognition. They are measured at fair value after initial recognition and changes in fair value are recognized in other comprehensive income. The cumulative amount of the changes in fair value is recognized in accumulated other comprehensive income. Dividends from equity instruments designated as FVTOCI are recognized in profit or loss unless it is obviously a return of investment.

Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to cash flows from the financial assets expire or are transferred, and the risks and rewards of ownership of the financial assets are substantially transferred.

(b) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date of issuance. All other financial liabilities are initially recognized on the transaction dates on which the Group becomes party to the agreement.

The Group derecognizes financial liabilities when extinguished, that is, when the obligation in the contract is redeemed, or the liability is discharged, cancelled, or expires.

Non-derivative financial liabilities that the Group holds include bonds, debts, operating payables, and other liabilities. They are initially measured at fair value (less direct transaction costs) and subsequently measured at amortized cost using the effective interest method.

(c) Derivatives and hedge accounting

The Group uses derivative instruments, including forward exchange contracts, interest rate swaps, and copper futures trading, in order to hedge currency risks, interest rate risks, and raw material (copper) price fluctuation risks, respectively.

The Group applies hedge accounting as follows:

- Fair value hedge: a hedge against changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment. The changes in the fair value of the recognized assets or liabilities, or unrecognized firm commitments, and the related derivatives are recognized in profit or loss if the hedge is considered highly effective.
- Cash flow hedge: a hedge against variability in cash flows attributable to a forecasted transaction or related to a recognized asset or liability. The changes in the fair value of derivative instruments designated as cash flow hedges are recorded in other comprehensive income (loss) if the hedge is considered highly effective. This treatment is continued until net income is affected by the variability in cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative instruments are recognized in profit or loss.

The Group documents risk management objectives and strategies for undertaking various hedge transactions. In addition, the Group assesses whether the derivative used in hedging activities is highly effective in offsetting changes in fair value or cash flows of the hedged item at the hedge's inception and periodically on an ongoing basis. Hedge accounting is discontinued for ineffective hedges. Subsequent changes in the fair value of derivatives related to discontinued hedges are immediately recognized in profit or loss.

(d) Offsetting of financial assets and liabilities

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

(5) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the specific identification method or average cost method for merchandise and finished products, and work in process, and generally by the moving average cost method or average cost method for raw materials and supplies. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to sell.

(6) Property, Plant and Equipment

The Group applies the cost model to property, plant and equipment and states such assets at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes the direct cost of acquisition, and the cost of its dismantlement, removal, and restoration. Property, plant and equipment are principally depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures:	2 to 60 years
Machinery and vehicles:	2 to 20 years
Tools, furniture and fixtures:	2 to 30 years

The estimated useful lives and the method of depreciation are reviewed at each fiscal year-end. Changes in estimated useful lives or depreciation method are accounted for as a change in an accounting estimate and applied prospectively.

(7) Goodwill and Other Intangible Assets

(a) Goodwill

Goodwill is stated at cost, less any accumulated impairment losses.

(b) Intangible assets (excluding goodwill)

The Group applies the cost model to intangible assets and states such assets at cost, less accumulated amortization and impairment losses.

Intangible assets with finite useful lives are amortized principally using the straight-line method over the following estimated useful lives:

Software:	2 to 10 years
Other intangible assets:	2 to 20 years

(8) Equity

(a) Common stock and capital surplus

The amounts of equity instruments issued by the Company are recognized in common stock and capital surplus at their issued prices, and the costs incurred directly related to the issuance are deducted from capital surplus.

(b) Treasury stock

When the Company acquires treasury stock, the acquisition costs are recognized as deductions from equity. When treasury stock is sold, the differences between the carrying amounts and the considerations are recognized in capital surplus.

(9) Impairment of Non-Financial Assets

The Group performs impairment testing for non-financial assets whenever events or circumstances have occurred that indicate that the carrying amount of the assets may not be recoverable. The Group tests goodwill and intangible assets with indefinite lives for impairment annually, generally during the fourth quarter, irrespective of whether there is any indication of impairment. The Group performs impairment testing by estimating the recoverable amount per cash-generating unit (CGU) to which the asset belongs. When performing an impairment test, assets are grouped into the smallest identifiable group whose cash flows are independent.

In determining the recoverable amount, the Group uses available quoted market prices or the income approach (a present value technique) based on the estimated future cash flows expected to result from the use of the assets and their eventual disposition. If the carrying amount of the assets allocated to a CGU exceeds the recoverable amount, an impairment loss on the assets of that CGU is recognized.

When there is a significant change in the facts and circumstances used to calculate the recoverable amount of an asset other than goodwill, and there is an indication that an impairment loss previously recognized on the asset may no longer exist or be decreased, the recoverable amount of the asset or the CGU is estimated. If the recoverable amount of the asset or the CGU exceeds its carrying amount, then the impairment loss is reversed to the extent of the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

(10) Assets Held for Sale
The Group classifies an asset or a disposal group of assets whose carrying amount will be recovered through a sales transaction, rather than through continuing use, as an asset or assets held for sale, if its sale is highly probable and it is available for immediate sale in its present condition. Assets held for sale are not depreciated or amortized, and are measured at the lower of carrying amount or fair value, less costs to sell.

(11) Post-Employment Benefits
The Company and its subsidiaries have contributory defined benefit pension plans as well as funded and unfunded lump-sum payment plans to provide retirement and severance benefits to employees. The present value of defined benefit obligations and retirement benefit costs are measured based on the projected unit credit method.

The effects of remeasurements of the net defined benefit asset or liability are recognized in other comprehensive income when incurred. Past service cost is immediately recognized in profit or loss.

The net amount of a defined benefit asset or liability is calculated as the present value of the defined benefit obligation, less the fair value of the plan assets, and is recognized as an asset or liability in the consolidated statement of financial position.

Additionally, the Company and certain subsidiaries have defined contribution pension plans, recognizing the contributions to the plans as expenses during the fiscal year when employees have rendered service.

(12) Provisions
The Group recognizes provisions when it has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of obligation can be reliably estimated.

When the time to settle an obligation is expected to be long and the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used in calculating the present value is a pre-tax rate that reflects the time value of money and the risks specific to the liability.

The nature and the amount of the provisions that the Group recorded are described in Note 12. “Provisions.”

(13) Contingencies
In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group discloses contingent liabilities in Note 25. “Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)” for outflows of resources embodying economic benefits whose realization is uncertain at the end of the reporting period, if it cannot be determined as a present obligation as of the end of the reporting period or if it does not meet the recognition criteria of provisions prescribed in (12) “Provisions,” unless the possibility of any outflow in settlement is remote.

The Group has financial guarantee contracts that require the Group to make specified payments to reimburse the creditor for a loss when the debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group accounts for liabilities related to the financial guarantee contracts at the higher of the best estimate of expenditures required for settling the present obligation at the reporting date or the amount initially recognized, less cumulative amortization.

(14) Revenue Recognition
The Group recognizes revenue when persuasive evidence of an arrangement exists, it is probable that future economic benefits will flow to the Group, and these benefits can be measured reliably.

Revenues from the sale of products are measured at the fair value of the consideration received or receivable. The fair value is the amount less discounts and rebates.

Revenue from sales of products is recognized when the significant risks and rewards of ownership of the products have been transferred to the customer; the Group has no continuing involvement nor effective control over the products; the amount of revenue and the costs incurred related to the transaction can be measured reliably; and it is probable that the economic benefits associated with the transaction will flow to the Group. Primarily, the Group recognizes revenue from the sale of products upon delivery to the customer. The Group sells products, such as high-grade specialty steel products, various mill rolls, injection molding machine parts, structural ceramic products, steel-frame joints for construction, soft magnetic materials, nanocrystalline magnetic material and related applied products, magnets, ceramic components, casting components for automobiles, aluminum wheels, other aluminum components, piping and infrastructure components, electric wires and cables, and functional products.

(15) Income Taxes
Deferred tax assets and liabilities arising from temporary differences, unused tax losses, and unused tax credits are recognized based on the asset and liability method. A deferred tax liability is not recognized on the temporary difference arising from goodwill, and the temporary difference arising from the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of transaction, affects neither accounting nor taxable profit or loss. It is also not recognized on outside-basis difference arising from

investments in subsidiaries and associates when the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the fiscal year when those temporary differences are expected to be recovered. The effects of a change in tax rates on deferred tax assets and liabilities are recognized in profit or loss and other comprehensive income in the fiscal year that includes the date of enactment of the change in the tax rate. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which any unused tax losses, unused tax credits, and future deductible temporary difference can be utilized.

(16) Consumption Tax

Consumption tax collected and remitted to taxing authorities is excluded from revenues, cost of sales, and expenses in the consolidated statements of income.

(17) Earnings per Share

Basic earnings per share ("EPS") attributable to shareholders of the parent company is calculated based on the weighted-average of common stock outstanding during the period.

(18) Business Combinations

Business combinations are accounted for using the acquisition method. Acquisition cost is determined as the total consideration transferred, measured at the acquisition date fair value and the non-controlling interests in the acquiree. For each business combination, the Group chooses to measure any non-controlling interest in the acquiree at fair value or on the basis of its proportionate interest in the acquiree's identifiable net assets at fair value. Acquisition-related costs are recognized as incurred in profit or loss.

Business combinations under common control, in other words, business combinations in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combinations and when the control is not temporary, are accounted for based on carrying amounts.

(19) Standards Issued but Not Yet Effective

The Group has not applied the following standards and interpretations that were issued, amended, or revised but not yet effective before the approval date of the accompanying consolidated financial statements as of and for the year ended March 31, 2018. The potential impacts of applying IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the consolidated financial statements are expected to be insignificant. The Company is currently assessing the potential impacts of applying IFRS 16 *Leases*.

IFRS	Title	Mandatory effective date (beginning on or after)	Expected application date by the Group	Summary of new or amended standards and interpretations
IFRS 9	Financial Instruments	January 1, 2018	Effective from the fiscal year ending March 31, 2019	Revision of hedge accounting (November 2013) Revision of classification and measurement of financial instruments and introduction of the expected loss model for the impairment of financial assets (July 2014)
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Effective from the fiscal year ending March 31, 2019	Revision of accounting treatments and disclosures for revenue recognition
IFRS 16	Leases	January 1, 2019	Effective from the fiscal year ending March 31, 2020	Revision of definition of a lease and accounting treatments for a lessee.

Note 4. Segment Information

Business Segments

The Group's operating segments are components for which independent financial information is available and which are regularly reviewed by the Board of Directors to assist the Board in making decisions about resources to be allocated to the segments and to assess performance.

The Group has adopted a company-based organizational structure and established seven business headquarters based on the type of products and services. Each of the seven business units prepares a comprehensive strategy and engages in business activities related to their products and services for both the domestic and overseas markets.

The Specialty Steel Products segment comprises the Specialty Steel Business, Roll Business, and Soft Magnetic Materials Business. The Magnetic Materials and Applications segment comprises the Magnet Business. The Functional Components and Equipment segment comprises the Automotive Components Business and Piping Components Business. The Wire, Cables, and Related Products segment comprises the Electric Wires and Cables Business.

The Group has changed its segment names from "High-Grade Metal Products and Materials" to "Specialty Steel Products" and from "High-Grade Functional Components and Equipment" to "Functional Components and Equipment" effective from April 1, 2017. This change in segment names does not affect the segment information.

The primary products and services included in each segment are as follows:

Reportable segment	Major products and services
Specialty Steel Products	YSS™ brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials, semiconductor and other package materials, and battery-related materials], materials for industrial equipment [automobile-related materials and razor and blade materials], aircraft- and energy-related materials, and precision cast components); rolls for steel mills; injection molding machine parts; structural ceramic products; steel-frame joints for construction; soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic material; and soft ferrite); and applied products
Magnetic Materials and Applications	Magnets (NEOMAX® rare-earth magnets, ferrite magnets, and other magnets and applied products) and ceramic components
Functional Components and Equipment	Casting components for automobiles (HNM™ high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITE® heat-resistant exhaust casting components); SCUBA™ aluminum wheels; other aluminum components; piping and infrastructure components (Gourd® brand pipe fittings, valves, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices, and sealed expansion tanks)
Wires, Cables, and Related Products	Electric wires and cables (industrial cables, electronic wires, electric equipment materials, and industrial rubber products) and functional products (cable assemblies, electronic automotive components, and brake hoses)

The same accounting policies as the ones described in Note 3. "Summary of Significant Accounting Policies" are applied to the reportable segments.

Income by reportable segment is based on operating income. Intersegment revenues are based on prevailing market price.

The following tables show business segment information for the years ended March 31, 2018 and 2017:

For the year ended March 31, 2018

	Millions of yen								
	Reportable segment					Others	Total	Adjust-ments	Consolidated statement of income
	Specialty Steel Products	Magnetic Materials and Applications	Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	¥ 290,412	¥ 106,119	¥ 360,053	¥ 229,888	¥ 986,472	¥ 1,831	¥ 988,303	¥ –	¥ 988,303
Intersegment transactions	187	12	–	644	843	1,586	2,429	(2,429)	–
Total revenues	290,599	106,131	360,053	230,532	987,315	3,417	990,732	(2,429)	988,303
Segment profit	26,127	7,286	607	11,183	45,203	111	45,314	1,012	46,326
Financial income	–	–	–	–	–	–	–	–	1,437
Financial expenses	–	–	–	–	–	–	–	–	(3,484)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	2,706
Income before income taxes	–	–	–	–	–	–	–	–	46,985
Segment assets	388,098	135,390	341,073	246,805	1,111,366	1,490	1,112,856	(54,024)	1,058,832
Other items:									
Depreciation and amortization	14,275	7,086	16,739	6,715	44,815	298	45,113	1,025	46,138
Capital expenditure	27,974	20,619	24,705	8,710	82,008	207	82,215	9,571	91,786
Impairment losses	1,193	1,340	8,011	41	10,585	26	10,611	–	10,611

Notes: 1. Segment profit is based on operating income.

2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly allocation variances of general and administrative expenses for corporate assets, which are not allocated to each reportable segment.

3. Adjustments represent mainly cash and cash equivalents, investments in securities, and other financial assets allocated to corporate assets and eliminations of intersegment transactions.

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

The Company has changed the business segment of SH Copper Products Co., Ltd, a subsidiary of the Company, and another subsidiary from the Wires, Cables, and Related Products segment to the Specialty Steel Products segment effective from July 1, 2017, aiming to strengthen battery-related components in the Specialty Steel Products segment. Associated with this change, the operating results of SH Copper Products and one other subsidiary for the year ended March 31, 2018, have been recorded under the Specialty Steel Products segment.

For the year ended March 31, 2017

	Millions of yen								
	Reportable segment					Others	Total	Adjust-ments	Consolidated statement of income
	Specialty Steel Products	Magnetic Materials and Applications	Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	¥ 243,127	¥ 99,754	¥ 333,506	¥ 232,713	¥ 909,100	¥ 1,386	¥ 910,486	¥ –	¥ 910,486
Intersegment transactions	104	2	3	173	282	1,577	1,859	(1,859)	—
Total revenues	243,231	99,756	333,509	232,886	909,382	2,963	912,345	(1,859)	910,486
Segment profit	22,171	9,301	15,920	20,059	67,451	331	67,782	485	68,267
Financial income	–	–	–	–	–	–	–	–	594
Financial expenses	–	–	–	–	–	–	–	–	(3,999)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	1,154
Income before income taxes	–	–	–	–	–	–	–	–	66,016
Segment assets	348,632	117,927	334,241	228,428	1,029,228	5,485	1,034,713	5,677	1,040,390
Other items:									
Depreciation and amortization	13,050	6,106	14,650	8,018	41,824	390	42,214	825	43,039
Capital expenditure	17,968	13,659	22,575	7,056	61,258	122	61,380	2,463	63,843
Impairment losses	123	204	–	730	1,057	–	1,057	6	1,063

Notes: 1. Segment profit is based on operating income.

2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly allocation variances of general and administrative expenses for corporate assets, which are not allocated to each reportable segment.

3. Adjustments represent mainly cash and cash equivalents, investments in securities, and other financial assets allocated to corporate assets and eliminations of intersegment transactions.

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

	Thousands of U.S. dollars								
	Reportable segment								
	Specialty Steel Products	Magnetic Materials and Applications	Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal	Others	Total	Adjust-ments	Consolidated statement of income
Revenues									
External customers	$ 2,733,547	$ 998,861	$ 3,389,053	$ 2,163,855	$ 9,285,316	$ 17,235	$ 9,302,551	$ –	$ 9,302,551
Intersegment transactions	1,760	113	–	6,062	7,935	14,928	22,863	(22,863)	–
Total revenues	2,735,307	998,974	3,389,053	2,169,917	9,293,251	32,163	9,325,414	(22,863)	9,302,551
Segment profit	245,924	68,581	5,713	105,262	425,480	1,045	426,525	9,526	436,050
Financial income	–	–	–	–	–	–	–	–	13,526
Financial expenses	–	–	–	–	–	–	–	–	(32,794)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	25,471
Income before income taxes	–	–	–	–	–	–	–	–	442,253
Segment assets	3,653,031	1,274,379	3,210,401	2,323,089	10,460,900	14,025	10,474,925	(508,509)	9,966,416
Other items:									
Depreciation and amortization	134,366	66,698	157,558	63,206	421,828	2,805	424,633	9,648	434,281
Capital expenditure	263,309	194,079	232,540	81,984	771,913	1,948	773,861	90,088	863,950
Impairment losses	11,229	12,613	75,405	386	99,633	245	99,878	–	99,878

Other Related Information

For the year ended March 31, 2018

1. Product and service information
   Information is similar to that presented under Segment Information above and is therefore omitted.

2. Geographic information
   (1) Revenues

Millions of yen					
Japan	North America	Asia	Europe	Other areas	Total
¥ 431,549	¥ 294,836	¥ 198,076	¥ 51,447	¥ 12,395	¥ 988,303

Thousands of U.S. dollars					
Japan	North America	Asia	Europe	Other areas	Total
$ 4,062,020	$ 2,775,188	$ 1,864,420	$ 484,253	$ 116,670	$ 9,302,551

Note: Revenues are classified by country or region based on the customer's location.
Revenues from external customers attributed to any individual country or region other than Japan, the United States, and China were not material.
Revenues from external customers in the United States and China were ¥259,683 million (US $2,444,305 thousand) and ¥75,323 million (US $708,989 thousand), respectively.

   (2) Non-current assets (excluding financial instruments)

Millions of yen					
Japan	North America	Asia	Europe	Other areas	Total
¥ 321,141	¥ 170,395	¥ 44,664	¥ 278	¥ 1,482	¥ 537,960

Thousands of U.S. dollars					
Japan	North America	Asia	Europe	Other areas	Total
$ 3,022,788	$ 1,603,869	$ 420,407	$ 2,617	$ 13,950	$ 5,063,630

Note: Non-current assets (excluding financial instruments) attributed to any individual country or region other than Japan and the United States were not material.
Non-current assets (excluding financial instruments) attributable to the United States were ¥170,395 million (US $1,603,869 thousand).

3. Significant customer information
   There was no concentration of revenues from a specific customer for the year ended March 31, 2018.

For the year ended March 31, 2017

1. Product and services information
   Information is similar to that presented under Segment Information above and is therefore omitted.

2. Geographic information
   (1) Revenues

Millions of yen					
Japan	North America	Asia	Europe	Other areas	Total
¥ 403,610	¥ 276,803	¥ 174,227	¥ 42,755	¥ 13,091	¥ 910,486

Note: Revenues are classified by country or region based on the customer's location.
Revenues from external customers attributed to any individual country or region other than Japan, the United States, and China were not material.
Revenues from external customers in the United States and China were ¥245,194 million and ¥62,743 million, respectively.

   (2) Non-current assets (excluding financial instruments)

Millions of yen					
Japan	North America	Asia	Europe	Other areas	Total
¥ 279,130	¥ 191,458	¥ 42,504	¥ 203	¥ 1,361	¥ 514,656

Note: Non-current assets (excluding financial instruments) attributed to any individual country or region other than Japan and the United States were not material.
Non-current assets (excluding financial instruments) attributable to the United States were ¥191,458 million.

3. Significant customer information
   There was no concentration of revenues from a specific customer for the year ended March 31, 2017.

Note 5. Trade Receivables

Trade receivables as of March 31, 2018 and 2017, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Accounts receivable	¥ 180,252	¥ 157,564	$ 1,696,649
Notes receivable and electronically recorded monetary claims	27,573	18,270	259,535
Allowance for doubtful accounts	(197)	(266)	(1,854)
Total	¥ 207,628	¥ 175,568	$ 1,954,330

For credit risk control and fair value of trade receivables, see Note 21. "Financial Instruments and Other Related Information."

Note 6. Inventories

Inventories as of March 31, 2018 and 2017, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Merchandise and finished products	¥ 62,842	¥ 54,767	$ 591,510
Work in process	75,121	59,141	707,088
Raw materials and supplies	52,239	39,648	491,707
Total	¥ 190,202	¥ 153,556	$ 1,790,305

The amount of inventories written down for the years ended March 31, 2018 and 2017, was ¥2,942 million (US $27,692 thousand) and ¥2,428 million, respectively.

Note 7. Investments Accounted for Using the Equity Method

The summarized financial information, in aggregate, for individually immaterial associates and joint ventures accounted for using the equity method as of and for the years ended March 31, 2018 and 2017, is as follows:

These amounts represent the Group's share of the associates and joint ventures per ownership percentage.

(1) Investments in associates

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Carrying amount of investments	¥ 27,863	¥ 26,239	$ 262,265

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income	¥ 2,489	¥ 1,127	$ 23,428
Other comprehensive income	520	(598)	4,895
Total comprehensive income	¥ 3,009	¥ 529	$ 28,323

(2) Investments in joint ventures

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Carrying amount of investments	¥ –	¥ –	$ –

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income	¥ 217	¥ 27	$ 2,043
Other comprehensive income	–	(243)	–
Total comprehensive income	¥ 217	¥ (216)	$ 2,043

Note 8. Property, Plant and Equipment

The following tables show the reconciliation of the carrying amount, acquisition costs, accumulated depreciation, and accumulated impairment losses of property, plant and equipment as of and for the years ended March 31, 2018 and 2017:

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other tangible assets	Construction in progress	Total
Carrying amount							
At April 1, 2016	¥ 55,919	¥ 80,060	¥ 129,345	¥ 16,700	¥ 401	¥ 21,867	¥ 304,292
Additions	–	1,848	2,639	1,354	–	55,928	61,769
Disposals	(712)	(796)	(1,062)	(296)	–	(44)	(2,910)
Depreciation	–	(6,816)	(23,608)	(7,102)	(90)	–	(37,616)
Impairment losses	(182)	(660)	(62)	(218)	–	(17)	(1,139)
Effects of exchange rate changes	37	(404)	(522)	(82)	(2)	(12)	(985)
Transfer from construction in progress	–	5,217	38,260	7,064	–	(50,541)	–
Change in the scope of consolidation	(251)	953	844	(1,076)	(85)	(131)	254
Other	638	384	208	2	(9)	(221)	1,002
At March 31, 2017	¥ 55,449	¥ 79,786	¥ 146,042	¥ 16,346	¥ 215	¥ 26,829	¥ 324,667
Additions	14	418	2,482	1,506	–	86,068	90,488
Disposals	(200)	(538)	(1,618)	(616)	(10)	(23)	(3,005)
Depreciation	–	(6,950)	(26,708)	(7,804)	(83)	–	(41,545)
Impairment losses	–	(1,418)	(6,395)	(715)	–	(2,178)	(10,706)
Effects of exchange rate changes	(50)	(997)	(2,379)	(220)	1	(332)	(3,977)
Transfer from construction in progress	–	8,967	44,598	8,213	–	(61,778)	–
Change in the scope of consolidation	–	–	(3)	(3)	–	(5)	(11)
Other	403	(1,434)	(72)	506	61	(57)	(593)
At March 31, 2018	¥ 55,616	¥ 77,834	¥ 155,947	¥ 17,213	¥ 184	¥ 48,524	¥ 355,318

	Thousands of U.S. dollars						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other tangible assets	Construction in progress	Total
Carrying amount							
At April 1, 2017	$ 521,922	$ 750,998	$ 1,374,642	$ 153,859	$ 2,024	$ 252,532	$ 3,055,977
Additions	132	3,934	23,362	14,175	–	810,128	851,732
Disposals	(1,883)	(5,064)	(15,230)	(5,798)	(94)	(216)	(28,285)
Depreciation	–	(65,418)	(251,393)	(73,456)	(781)	–	(391,049)
Impairment losses	–	(13,347)	(60,194)	(6,730)	–	(20,501)	(100,772)
Effects of exchange rate changes	(471)	(9,384)	(22,393)	(2,071)	9	(3,125)	(37,434)
Transfer from construction in progress	–	84,403	419,785	77,306	–	(581,495)	–
Change in the scope of consolidation	–	–	(28)	(28)	–	(47)	(104)
Other	3,793	(13,498)	(678)	4,763	574	(537)	(5,582)
At March 31, 2018	$ 523,494	$ 732,624	$ 1,467,875	$ 162,020	$ 1,732	$ 456,739	$ 3,344,484

Note: Property, plant and equipment under construction are presented as construction in progress.

Depreciation charges recognized for the years ended March 31, 2018 and 2017, are included in cost of sales and selling, general and administrative expenses of the consolidated statement of income. Impairment losses are included in other expenses of the consolidated statement of income.

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other tangible assets	Construction in progress	Total
Acquisition cost							
At April 1, 2016	¥ 56,837	¥250,953	¥ 580,858	¥ 88,499	¥ 1,128	¥ 22,047	¥ 1,000,322
At March 31, 2017	55,904	259,939	641,348	91,243	944	26,847	1,076,225
At March 31, 2018	55,865	260,589	665,225	98,764	941	50,687	1,132,071
Accumulated depreciation and accumulated impairment losses							
At April 1, 2016	¥ 918	¥ 170,893	¥ 451,513	¥ 71,799	¥ 727	¥ 180	¥ 696,030
At March 31, 2017	455	180,153	495,306	74,897	729	18	751,558
At March 31, 2018	249	182,755	509,278	81,551	757	2,163	776,753

	Thousands of U.S. dollars						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other tangible assets	Construction in progress	Total
Acquisition cost							
At March 31, 2018	$ 525,838	$ 2,452,833	$ 6,261,530	$ 929,631	$ 8,857	$ 477,099	$ 10,655,789
Accumulated depreciation and accumulated impairment losses							
At March 31, 2018	$ 2,344	$ 1,720,209	$ 4,793,656	$ 767,611	$ 7,125	$ 20,360	$ 7,311,305

Items of property, plant and equipment are grouped by the smallest identifiable group of assets that generate cash inflows and that are largely independent of the cash inflows.

The Group recognized impairment losses of ¥10,706 million (US $100,772 thousand) and ¥1,139 million on property, plant and equipment for the years ended March 31, 2018 and 2017, respectively.

Impairment losses were recognized for the year ended March 31, 2018, to reduce the carrying amounts of business-use assets (mainly buildings and machinery), due mainly to a decline in profitability in the aluminum wheels business of the Functional Components and Equipment segment, to their recoverable amounts for the amount of ¥8,011 million (US $75,405 thousand). The recoverable amount of an asset is determined based on its fair value less costs of disposal, and the assets above were evaluated as ¥3,514 million (US $33,076 thousand) as of March 31, 2018. The fair value of an asset is determined mainly under the market approach. The fair value is measured based on real estate appraisals. The fair value hierarchy for such inputs is classified as Level 3.

Impairment losses were recognized for the year ended March 31, 2017, to reduce the carrying amounts of business-use assets (mainly buildings, and tools furniture, and fixtures), due to a decline in profitability in part of the Specialty Steel Products segment, and of idle assets (mainly land and buildings) in the Specialty Steel Products segment and Wires, Cables, and Related Products segment to their recoverable amounts.

Note 9. Goodwill and Intangible Assets

The following tables show the reconciliation of the carrying amounts, acquisition costs, and the accumulated amortization and accumulated impairment losses of goodwill and intangible assets as of and for the years ended March 31, 2018 and 2017:

	Millions of yen				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Carrying amount					
At April 1, 2016	¥ 113,335	¥ 3,937	¥ 2,743	¥ 38,900	¥ 158,915
Purchases	–	109	3	1,962	2,074
Amortization	–	(1,259)	(1,459)	(2,572)	(5,290)
Impairment losses	–	(32)	–	(176)	(208)
Disposals	–	(13)	–	(4)	(17)
Effects of exchange rate changes	(369)	(9)	(11)	(248)	(637)
Transfer from software in progress	–	1,155	595	(1,750)	–
Change in the scope of consolidation	–	(110)	(1,877)	(1,507)	(3,494)
Other	98	(465)	464	(245)	(148)
At March 31, 2017	¥ 113,064	¥ 3,313	¥ 458	¥ 34,360	¥ 151,195
Purchases	–	108	38	1,116	1,262
Amortization	–	(1,256)	(194)	(3,040)	(4,490)
Impairment losses	–	(9)	–	(41)	(50)
Disposals	–	(6)	–	(8)	(14)
Effects of exchange rate changes	(4,396)	(8)	(19)	(1,561)	(5,984)
Transfer from software in progress	–	841	–	(841)	–
Change in the scope of consolidation	–	(1)	–	–	(1)
Other	(28)	(8)	–	14	(22)
At March 31, 2018	¥ 108,640	¥ 2,974	¥ 283	¥ 29,999	¥ 141,896

	Thousands of U.S. dollars				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Carrying amount					
At April 1, 2017	$ 1,064,232	$ 31,184	$ 4,311	$ 323,419	$ 1,423,146
Purchases	–	1,017	358	10,505	11,879
Amortization	–	(11,822)	(1,826)	(28,614)	(42,263)
Impairment losses	–	(85)	–	(386)	(471)
Disposals	–	(56)	–	(75)	(132)
Effects of exchange rate changes	(41,378)	(75)	(179)	(14,693)	(56,325)
Transfer from software in progress	–	7,916	–	(7,916)	–
Change in the scope of consolidation	–	(9)	–	–	(9)
Other	(264)	(75)	–	132	(207)
At March 31, 2018	$ 1,022,590	$ 27,993	$ 2,664	$ 282,370	$ 1,335,617

Amortization recognized for the years ended March 31, 2018 and 2017, was included in the cost of sales and selling, general and administrative expenses of the consolidated statement of income. Impairment losses are included in other expenses in the consolidated statement of income.

	Millions of yen				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Acquisition cost					
At April 1, 2016	¥ 113,830	¥ 16,149	¥ 18,542	¥ 45,408	¥ 193,929
At March 31, 2017	113,559	14,860	1,530	44,051	174,000
At March 31, 2018	109,135	15,136	1,489	42,282	168,042
Accumulated amortization and accumulated impairment losses					
At April 1, 2016	¥ 495	¥ 12,212	¥ 15,799	¥ 6,508	¥ 35,014
At March 31, 2017	495	11,547	1,072	9,691	22,805
At March 31, 2018	495	12,162	1,206	12,283	26,146

	Thousands of U.S. dollars				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Acquisition cost					
At March 31, 2018	$ 1,027,250	$ 142,470	$ 14,015	$ 397,986	$ 1,581,721
Accumulated amortization and accumulated impairment losses					
At March 31, 2018	$ 4,659	$ 114,477	$ 11,352	$ 115,616	$ 246,103

For the years ended March 31, 2018 and 2017, there were no material intangible assets with indefinite useful lives.

The Group expenditures on R&D recognized as expenses for the years ended March 31, 2018 and 2017, are ¥17,749 million (US $167,065 thousand) and ¥17,971 million, respectively. R&D expenses are included in cost of sales and selling, general and administrative expenses in the consolidated statement of income.

The Group performs impairment testing for goodwill acquired through business combinations by comparing the carrying amount and the recoverable amount per CGU or group of CGUs.

Significant goodwill recognized in the consolidated statement of financial position is primarily goodwill related to the Functional Components and Equipment segment arising from the acquisition of Waupaca Foundry, Inc. in 2014 (¥65,372 million (US $615,324 thousand) and ¥69,399 million as of March 31, 2018 and 2017, respectively) and that related to the Magnetic Materials and Applications business in connection with the acquisition of additional shares in NEOMAX Co., Ltd. through a tender offer in 2006 (¥35,781 million (US $336,794 thousand) and ¥35,781 million as of March 31, 2018 and 2017, respectively).

The Group measures the recoverable amount for each CGU or group of CGUs by the value in use. In assessing the value in use, estimated future cash flows based on management-approved business plans are discounted to their present values using the discount rate based on the weighted-average cost of capital. The business plan to be used is based on external information and reflects historical trends, generally with a maximum period of five years. Since the Group is engaged in a wide range of business activities from development, production, and sale of diverse products to providing various services, appropriate external information for each business activity is used for evaluating the value in use. In addition, the estimated future cash flows subsequent to the business plan are calculated using the estimated growth rate not exceeding the long-term average growth rate of the market to which the CGU belongs.

The discount rate used for impairment testing of the significant goodwill is estimated based on prior years' weighted-average cost of capital (approximately 5.0% to 10.0%). For future cash flows, a permanent growth rate (maximum 2.0%) is applied. Such rate is determined not to exceed the growth rate of countries and regions making estimates, including budgets, and engaged in business activities. Furthermore, even when primary assumptions used for the impairment test change within a reasonable and foreseeable range, Group management considers any significant impairment losses unlikely to occur.

Note 10. Deferred Taxes and Income Taxes

The following table shows major components of income taxes:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Income taxes			
Current tax expense	¥ 14,377	¥ 15,382	$ 135,326
Deferred tax expense			
Accruals and reversals of temporary differences	(6,490)	1,803	(61,088)
Changes in realizability of deferred tax assets	(2,977)	(1,861)	(28,021)
Total	¥ 4,910	¥ 15,324	$ 46,216

The Company is subject to a national corporate tax, inhabitant tax, and deductible business tax, and those taxes resulted in combined statutory income tax rates of 30.7% for each of the years ended March 31, 2018 and 2017.

The Company has elected to file a consolidated income tax return.

On December 22, 2017, major tax reform was approved by the U.S. Congress in the Tax Cuts and Jobs Act, and the federal corporate income tax rate has been reduced from 35% to 21% effective from January 1, 2018. As a result, income taxes for the year ended March 31, 2018, decreased by ¥3,670 million (US $34,544 thousand).

The reconciliation between the combined statutory income tax rate and the effective income tax rate as a percentage of income before income taxes is as follows:

	2018	2017
Combined statutory income tax rate	30.7%	30.7%
Share of profits of investments accounted for using the equity method	(1.8)	(0.5)
Expenses not deductible for tax purposes	0.3	0.2
Special tax credit for corporate taxes	(4.0)	(2.9)
Adjustments to deferred tax assets and liabilities due to enacted tax laws and rates	(7.5)	0.1
Change in realizability of deferred tax assets	(6.3)	(2.8)
Other, net	(0.9)	(1.6)
Effective income tax rate	10.5%	23.2%

Changes in significant portion of the deferred tax assets and liabilities are as follows:

	Millions of yen				
	April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2018
Deferred tax assets					
Retirement and severance benefits	¥ 20,100	¥ 255	¥ (2,242)	¥ –	¥ 18,113
Accrued expenses	2,275	180	–	–	2,455
Depreciation and amortization	5,581	(82)	–	–	5,499
Net operating loss carry-forwards	197	(195)	–	–	2
Other	16,397	1,962	(191)	74	18,242
Total deferred tax assets	¥ 44,550	¥ 2,120	¥ (2,433)	¥ 74	¥ 44,311
Deferred tax liabilities					
Tax purpose reserve regulated by Japanese tax laws	(1,788)	225	–	–	(1,563)
Investments in securities	(2,198)	19	(26)	–	(2,205)
Depreciation and amortization	(9,204)	2,268	–	–	(6,936)
Intangible assets acquired in business combinations	(11,239)	4,886	–	–	(6,353)
Other	(17,228)	(51)	–	–	(17,279)
Total deferred tax liabilities	¥ (41,657)	¥ 7,347	¥ (26)	–	¥ (34,336)
Net deferred tax assets	¥ 2,893	¥ 9,467	¥ (2,459)	¥ 74	¥ 9,975

	Millions of yen				
	April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2017
Deferred tax assets					
Retirement and severance benefits	¥ 21,881	¥ (307)	¥ (1,166)	¥ (308)	¥ 20,100
Accrued expenses	3,930	(1,608)	–	(47)	2,275
Depreciation and amortization	5,769	(415)	–	227	5,581
Net operating loss carry-forwards	904	(707)	–	–	197
Other	15,722	922	(489)	242	16,397
Total deferred tax assets	¥ 48,206	¥ (2,115)	¥ (1,655)	¥ 114	¥ 44,550
Deferred tax liabilities					
Tax purpose reserve regulated by Japanese tax laws	(1,819)	31	–	–	(1,788)
Investments in securities	(2,176)	(35)	13	–	(2,198)
Depreciation and amortization	(8,373)	(831)	–	–	(9,204)
Intangible assets acquired in business combinations	(11,985)	746	–	–	(11,239)
Other	(19,234)	2,262	–	(256)	(17,228)
Total deferred tax liabilities	¥ (43,587)	¥ 2,173	¥ 13	¥ (256)	¥ (41,657)
Net deferred tax assets	¥ 4,619	¥ 58	¥ (1,642)	¥ (142)	¥ 2,893

	Thousands of U.S. dollars				
	April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2018
Deferred tax assets					
Retirement and severance benefits	$ 189,194	$ 2,400	$ (21,103)	$ –	$ 170,491
Accrued expenses	21,414	1,694	–	–	23,108
Depreciation and amortization	52,532	(772)	–	–	51,760
Net operating loss carry-forwards	1,854	(1,835)	–	–	19
Other	154,339	18,468	(1,798)	697	171,706
Total deferred tax assets	$ 419,334	$ 19,955	$ (22,901)	$ 697	$ 417,084
Deferred tax liabilities					
Tax purpose reserve regulated by Japanese tax laws	(16,830)	2,118	–	–	(14,712)
Investments in securities	(20,689)	179	(245)	–	(20,755)
Depreciation and amortization	(86,634)	21,348	–	–	(65,286)
Intangible assets acquired in business combinations	(105,789)	45,990	–	–	(59,799)
Other	(162,161)	(480)	–	–	(162,641)
Total deferred tax liabilities	$ (392,103)	$ 69,155	$ (245)	$ –	$ (323,193)
Net deferred tax assets	$ 27,231	$ 89,110	$ (23,146)	$ 697	$ 93,891

Deferred tax liabilities have not been recognized for excess amounts over the tax bases of investments in foreign subsidiaries and associates that are considered to be reinvested indefinitely, because such differences will not reverse in the foreseeable future.

Total temporary differences related to undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized as of March 31, 2018 and 2017, were ¥143,391 million (US $1,349,689 thousand) and ¥143,620 million, respectively.

In assessing the realizability of deferred tax assets, the Group considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in specific tax jurisdictions during periods in which these deductible temporary differences become deductible or unused tax credits can be used. Although realization is not assured, the Group considers the scheduled reversals of deferred tax liabilities and projected future taxable income in making the assessment. Based on these factors, the Group believes that it is probable that it will realize the recognized deferred tax assets as of March 31, 2018.

Deductible temporary differences, net operating loss carry-forwards, and unused tax credits carry-forwards for which no deferred tax asset is recognized are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Deductible temporary difference	¥ 32,637	¥ 49,145	$ 307,201
Net operating loss carry-forwards	6,870	6,931	64,665
Unused tax credits carry-forwards	554	646	5,215
Total	¥ 40,061	¥ 56,722	$ 377,080

Carry-forwards related to net operating losses and unused tax credits on which no deferred tax asset is recognized will expire as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Net operating loss carry-forwards			
Within 5 years	¥ 6,870	¥ 6,809	$ 64,665
After 5 years but not more than 10 years	–	122	–
Total net operating loss carry-forwards	¥ 6,870	¥6,931	$ 64,665
Unused tax credits carry-forwards			
Within 5 years	¥ 554	¥ 646	$ 5,215
After 5 years but not more than 10 years	–	–	–
Total unused tax credits carry-forwards	¥ 554	¥ 646	$ 5,215

Note 11. Trade Payables

Trade payables as of March 31, 2018 and 2017, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Accounts payable	¥ 151,511	¥ 133,366	$ 1,426,120
Notes payable and electronically recorded obligations	21,483	17,419	202,212
Total	¥ 172,994	¥ 150,785	$ 1,628,332

Note 12. Provisions

Details and the reconciliation of provisions included in other current liabilities and other non-current liabilities as of and for the year ended March 31, 2018, are as follows:

	Millions of yen	
	Asset retirement obligations	Provision for environmental measures
Balance at April 1, 2017	¥ 774	¥ 1,492
Additions	33	22
Utilized	(16)	(574)
Reversals	(45)	(79)
Effects of exchange rate changes	(29)	–
Balance at March 31, 2018	¥ 717	¥ 861
Current	–	14
Non-current	¥ 717	¥ 847

	Thousands of U.S. dollars	
	Asset retirement obligations	Provision for environmental measures
Balance at April 1, 2017	$ 7,285	$ 14,044
Additions	311	207
Utilized	(151)	(5,403)
Reversals	(424)	(744)
Effects of exchange rate changes	(273)	–
Balance at March 31, 2018	$ 6,749	$ 8,104
Current	–	132
Non-current	$ 6,749	$ 7,973

Asset retirement obligations:

The Group recognizes asset retirement obligations principally based on estimated future expenditures using historical trends when the Group has a legal obligation associated with the retirement of property, plant and equipment used in normal operation, such as obligations to restore the site in relation to lease agreements for plant facilities and premises.

Provision for environmental measures:

A provision for environmental measures is provided for disposal costs anticipated to be incurred with respect to the Law Concerning Special Measures against PCB Waste.

Note 13. Employee Benefits

(1) Post-Employment Benefits

The Company, its subsidiaries located in Japan, and certain overseas subsidiaries have contributory defined benefit pension plans and funded and unfunded lump-sum payment plans to provide retirement and severance benefits to employees. An employee retirement benefit trust is established for the pension plans and the lump-sum payment plans.

The Company and some of its subsidiaries have contract-type pension plans based on the pension rules. They also have established a post-employment benefits committee as an advisory body for significant matters related to the pension plans. The committee holds meetings to report various matters, such as asset management performance, plan status, and accounting treatments, and to discuss agendas, such as plan revisions and investment policy changes, as necessary.

Under the unfunded lump-sum payment plans, employees are entitled to receive lump-sum payments based on their earnings and the length of service at retirement.

In addition, the Company and its certain subsidiaries have defined contribution pension plans.

Reconciliations of the beginning and ending balances of the benefit obligation and the fair value of the plan assets of the defined benefit pension plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Defined benefit obligations at the beginning of the year	¥ 190,008	¥ 202,730	$ 1,788,479
Service costs	6,948	6,806	65,399
Interest costs	1,915	1,962	18,025
Actuarial gains and losses	1,204	(111)	11,333
Past service cost	(181)	250	(1,704)
Benefits paid	(10,493)	(12,882)	(98,767)
Wind-up of some plans	–	(5,257)	–
Effects of exchange rate changes and others	196	(3,490)	1,845
Defined benefit obligation at the end of the year	¥ 189,597	¥ 190,008	$ 1,784,610

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Fair value of plan assets at the beginning of the year	¥ 130,934	¥ 137,383	$ 1,232,436
Interest income	1,822	1,047	17,150
Return on plan assets (excluding interest income)	5,540	3,683	52,146
Contributions to defined benefit pension plans (Note)	3,938	3,477	37,067
Benefits paid	(7,997)	(7,978)	(75,273)
Wind-up of some plans	–	(5,257)	–
Effects of exchange rate changes and others	(270)	(1,421)	(2,541)
Fair value of plan assets at the end of the year	¥ 133,967	¥ 130,934	$ 1,260,985

Note: As of March 31, 2018, the estimated contributions to the defined benefit pension plans for the year ending March 31, 2019, were ¥3,791 million (US $35,683 thousand).

The amounts recognized in relation to defined benefit plans in the consolidated statement of financial position are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Present value of defined benefit obligations (funded)	¥ (181,333)	¥ (183,270)	$ (1,706,824)
Fair value of plan assets	133,967	130,934	1,260,985
Funded status	(47,366)	(52,336)	(445,840)
Present value of defined benefit obligations (unfunded)	(8,264)	(6,738)	(77,786)
Net asset (liability) recognized in the consolidated statement of financial position	¥ (55,630)	¥ (59,074)	$ (523,626)

Components of actuarial gains and losses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Arising from changes in financial assumptions	¥ 1,128	¥ (1,528)	$ 10,617
Arising from changes in demographic assumptions	(714)	559	(6,721)
Other	790	858	7,436

The Company and all of its subsidiaries use their year-end as a measurement date. The primary assumptions used for actuarial valuation are as follows:

	March 31, 2018	March 31, 2017
Discount rate	1.1%	1.1%

If, as of March 31, 2018, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥9,029 million (US $84,987 thousand), and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥9,595 million (US $90,314 thousand). If, as of March 31, 2017, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥9,100 million, and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥9,920 million.

Although sensitivity analysis is based on the assumption that all other variables are constant, in reality, changes in other assumptions may affect the sensitivity analysis.

The weighted-average duration (weighted-average maturity) of defined benefit obligations is as follows:

	March 31, 2018	March 31, 2017
Duration	10.4 years	10.8 years

The objective of the investment policy of the plan is to ensure stable returns from investments over the long term, which allows the pension funds to meet their future benefit payments, and to maintain the pension funds in a sound condition.

In order to achieve the above objective, the plan establishes a target rate of return, taking into consideration the participants' demographics, funded status, the Company's and certain subsidiaries' capacities to absorb risks, and the current economic environment. To meet the target rate of return, the plan also employs strategic target asset allocation based on the expected rate of return by asset class, the standard deviation of the rate of return, and the correlation coefficient among assets.

When markets fluctuate in excess of certain levels, the asset allocation of the plan assets is rebalanced to the strategic target asset allocation. The Company and certain subsidiaries periodically review actual returns on the plan assets, economic trends, and their capacities to absorb risks and realign the strategic target asset allocation, if necessary.

The following tables show the fair value of the plan assets as of March 31, 2018 and 2017:

	Millions of yen		
	March 31, 2018		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	¥ 9,663	¥ 330	¥ 9,993
Government and municipal debt securities	850	192	1,042
Corporate and other debt securities	–	1,232	1,232
Hedge funds	–	200	200
Securitized products	25	3,653	3,678
Cash and cash equivalents	10,843	–	10,843
Life insurance company general accounts	–	18,903	18,903
Commingled funds	–	87,174	87,174
Other	72	830	902
Total	¥ 21,453	¥ 112,514	¥ 133,967

	Millions of yen		
	March 31, 2017		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	¥ 10,046	¥ 318	¥ 10,364
Government and municipal debt securities	637	193	830
Corporate and other debt securities	–	1,197	1,197
Securitized products	27	2,668	2,695
Cash and cash equivalents	6,202	0	6,202
Life insurance company general accounts	–	18,354	18,354
Commingled funds	–	90,364	90,364
Other	107	821	928
Total	¥ 17,019	¥ 113,915	¥ 130,934

	Thousands of U.S. dollars		
	March 31, 2018		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	$ 90,954	$ 3,106	$ 94,061
Government and municipal debt securities	8,001	1,807	9,808
Corporate and other debt securities	–	11,596	11,596
Hedge funds	–	1,883	1,883
Securitized products	235	34,384	34,620
Cash and cash equivalents	102,061	–	102,061
Life insurance company general accounts	–	177,927	177,927
Commingled funds	–	820,538	820,538
Other	678	7,813	8,490
Total	$ 201,930	$ 1,059,055	$ 1,260,985

Commingled funds represent pooled institutional investments. Approximately 32% and 34% of commingled funds were invested in listed stocks as of March 31, 2018 and 2017, respectively. Approximately 44% and 46% were invested in government and municipal debt securities as of March 31, 2018 and 2017, respectively. Approximately 12% and 10% were invested in corporate and other debt securities as of March 31, 2018 and 2017, respectively. Approximately 12% and 10% were invested in other assets as of March 31, 2018 and 2017, respectively.

Expenses recognized in relation to the Company's and certain subsidiaries' contributions to the defined contribution plans amounted to ¥3,324 million (US $31,288 thousand) and ¥3,295 million for the years ended March 31, 2018 and 2017, respectively.

(2) Employee Benefit Expense

The aggregated amounts of employee benefit expenses recognized in the consolidated statement of income for the years ended March 31, 2018 and 2017, were ¥136,553 million (US $1,285,326 thousand) and ¥135,666 million, respectively.

Note 14. Equity

(1) Common Stock

	March 31, 2018	March 31, 2017
Authorized issuance (Number of shares)	500,000,000	500,000,000

	Issued shares (Number of shares)
Balance as of April 1, 2016	428,904,352
Changes during the year	–
Balance as of March 31, 2017	428,904,352
Changes during the year	–
Balance as of March 31, 2018	428,904,352

Shares issued by the Company are non-par value common stock. The issued shares above include treasury stock. Changes in treasury stock for the years ended March 31, 2018 and 2017, are as follows:

	Treasury shares (Number of shares)
Balance as of April 1, 2016	1,324,420
Acquisition of treasury stock	3,750
Sales of treasury stock	(270)
Balance as of March 31, 2017	1,327,900
Acquisition of treasury stock	4,476
Sales of treasury stock	(241)
Balance as of March 31, 2018	1,332,135

Treasury stock held by the Company's associates as of March 31, 2018 and 2017, was 71,885 shares and 71,885 shares, respectively.

(2) Surplus

(a) Capital surplus

The Companies Act of Japan mandates that at least half of paid-in capital be appropriated as common stock and the rest be appropriated as legal reserves as part of capital surplus.

(b) Retained earnings

The Companies Act of Japan provides that an amount equal to 10% of appropriated retained earnings to be paid as dividends be reserved as legal reserve or retained earnings reserve to the extent that the total legal reserve and retained earnings reserve equals 25% of the nominal value of common stock. Retained earnings reserve may be made available for dividend payments upon a shareholders' meeting resolution.

Note 15. Accumulated Other Comprehensive Income and Other Comprehensive Income

Accumulated other comprehensive income, net of related tax effects, as presented in the consolidated statement of changes in equity is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Foreign currency translation adjustments on foreign operations:			
Balance at the beginning of the year	¥ 7,725	¥ 9,754	$ 72,713
Net other comprehensive income	(6,314)	(2,029)	(59,431)
Balance at the end of the year	¥ 1,411	¥ 7,725	$ 13,281
Remeasurements of defined benefit pension plans:			
Balance at the beginning of the year	¥ 5,521	¥ 2,960	$ 51,967
Transfer to retained earnings	–	(86)	–
Net other comprehensive income	2,094	2,647	19,710
Balance at the end of the year	¥ 7,615	¥ 5,521	$ 71,677
Net change in fair value of financial assets measured at FVTOCI:			
Balance at the beginning of the year	¥ 6,724	¥ 7,603	$ 63,291
Transfer to retained earnings	(18)	(367)	(169)
Net other comprehensive income	1,130	(512)	10,636
Balance at the end of the year	¥ 7,836	¥ 6,724	$ 73,758
Net change in fair value of cash flow hedges:			
Balance at the beginning of the year	¥ (415)	¥ (1,537)	$ (3,906)
Net other comprehensive income	449	1,122	4,226
Balance at the end of the year	¥ 34	¥ (415)	$ 320
Total accumulated other comprehensive income:			
Balance at the beginning of the year	¥ 19,555	¥ 18,780	$ 184,064
Transfer to retained earnings	(18)	(453)	(169)
Net other comprehensive income	(2,641)	1,228	(24,859)
Balance at the end of the year	¥ 16,896	¥ 19,555	$ 159,036

The following is a summary of reclassification adjustments, by line item, made to other comprehensive income, including non-controlling interests and related tax effects arising during the years ended March 31, 2018 and 2017:

	Millions of yen		
	2018		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	¥ (5,902)	¥ –	¥ (5,902)
Remeasurements of defined benefit obligations	4,336	(2,242)	2,094
Net gains or losses from financial assets measured at fair value through other comprehensive income	697	(34)	663
Net change in fair value of cash flow hedges	27	(9)	18
Share of other comprehensive income of investments accounted for using the equity method	758	(239)	519
Total	¥ (84)	¥ (2,524)	¥ (2,608)
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	¥ (230)	¥ –	¥ (230)
Net change in fair value of cash flow hedges	597	(182)	415
Share of other comprehensive income of investments accounted for using the equity method	1	–	1
Total	¥ 368	¥ (182)	¥ 186
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	¥ (6,132)	¥ –	¥ (6,132)
Remeasurements of defined benefit obligations	4,336	(2,242)	2,094
Net gains or losses from financial assets measured at fair value through other comprehensive income	697	(34)	663
Net change in fair value of cash flow hedges	624	(191)	433
Share of other comprehensive income of investments accounted for using the equity method	759	(239)	520
Total	¥ 284	¥ (2,706)	¥ (2,422)
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			¥ 228
Remeasurements of defined benefit obligations			–
Net gains or losses from financial assets measured at fair value through other comprehensive income			7
Net change in fair value of cash flow hedges			(16)
Total			¥ 219
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			
Foreign currency translation adjustments on foreign operations			¥ (6,360)
Remeasurements of defined benefit obligations			2,094
Net gains or losses from financial assets measured at fair value through other comprehensive income			656
Net change in fair value of cash flow hedges			449
Share of other comprehensive income of investments accounted for using the equity method			520
Total			¥ (2,641)

	Millions of yen		
	2017		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	¥ (620)	¥ –	¥ (620)
Remeasurements of defined benefit obligations	3,794	(1,166)	2,628
Net gains or losses from financial assets measured at fair value through other comprehensive income	100	(138)	(38)
Net change in fair value of cash flow hedges	(608)	185	(423)
Share of other comprehensive income of investments accounted for using the equity method	(375)	(223)	(598)
Total	¥ 2,291	¥ (1,342)	¥ 949
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	¥ (970)	¥ –	¥ (970)
Net change in fair value of cash flow hedges	2,211	(674)	1,537
Share of other comprehensive income of investments accounted for using the equity method	(243)	–	(243)
Total	¥ 998	¥ (674)	¥ 324
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	¥ (1,590)	¥ –	¥ (1,590)
Remeasurements of defined benefit obligations	3,794	(1,166)	2,628
Net gains or losses from financial assets measured at fair value through other comprehensive income	100	(138)	(38)
Net change in fair value of cash flow hedges	1,603	(489)	1,114
Share of other comprehensive income of investments accounted for using the equity method	(618)	(223)	(841)
Total	¥ 3,289	¥ (2,016)	¥ 1,273
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			¥ 75
Remeasurements of defined benefit obligations			(19)
Net gains or losses from financial assets measured at fair value through other comprehensive income			(3)
Net change in fair value of cash flow hedges			(8)
Total			¥ 45
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			
Foreign currency translation adjustments on foreign operations			¥ (1,665)
Remeasurements of defined benefit obligations			2,647
Net gains or losses from financial assets measured at fair value through other comprehensive income			(35)
Net change in fair value of cash flow hedges			1,122
Share of other comprehensive income of investments accounted for using the equity method			(841)
Total			¥ 1,228

	Thousands of U.S. dollars		
	2018		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	$ (55,553)	$ –	$ (55,553)
Remeasurements of defined benefit obligations	40,813	(21,103)	19,710
Net gains or losses from financial assets measured at fair value through other comprehensive income	6,561	(320)	6,241
Net change in fair value of cash flow hedges	254	(85)	169
Share of other comprehensive income of investments accounted for using the equity method	7,135	(2,250)	4,885
Total	$ (791)	$ (23,758)	$ (24,548)
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	$ (2,165)	$ –	$ (2,165)
Net change in fair value of cash flow hedges	5,619	(1,713)	3,906
Share of other comprehensive income of investments accounted for using the equity method	9	–	9
Total	$ 3,464	$ (1,713)	$ 1,751
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	$ (57,718)	$ –	$ (57,718)
Remeasurements of defined benefit obligations	40,813	(21,103)	19,710
Net gains or losses from financial assets measured at fair value through other comprehensive income	6,561	(320)	6,241
Net change in fair value of cash flow hedges	5,873	(1,798)	4,076
Share of other comprehensive income of investments accounted for using the equity method	7,144	(2,250)	4,895
Total	$ 2,673	$ (25,471)	$ (22,797)
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			$ 2,146
Remeasurements of defined obligations			–
Net gains or losses from financial assets measured at fair value through other comprehensive income			66
Net change in fair value of cash flow hedges			(151)
Total			$ 2,061
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			
Foreign currency translation adjustments on foreign operations			$ (59,864)
Remeasurements of defined benefit obligations			19,710
Net gains or losses from financial assets measured at fair value through other comprehensive income			6,175
Net change in fair value of cash flow hedges			4,226
Share of other comprehensive income of investments accounted for using the equity method			4,895
Total			$ (24,859)

Note 16. Dividends

Dividends paid for the years ended March 31, 2018 and 2017, are as follows:

Resolution adopted	Type of shares	Millions of yen Aggregate amount	Appropriation from	Yen Amount per share	Record date	Effective date
Board of Directors' meeting on May 30, 2016	Common stock	¥ 5,559	Retained earnings	¥ 13.0	March 31, 2016	May 31, 2016
Board of Directors' meeting on October 27, 2016	Common stock	¥ 5,559	Retained earnings	¥ 13.0	September 30, 2016	November 29, 2016
Board of Directors' meeting on May 30, 2017	Common stock	¥ 5,559	Retained earnings	¥ 13.0	March 31, 2017	May 31, 2017
Board of Directors' meeting on October 24, 2017	Common stock	¥ 5,558	Retained earnings	¥ 13.0	September 30, 2017	November 29, 2017

Resolution adopted	Type of shares	Thousands of U.S. dollars Aggregate amount	Appropriation from	U.S. dollars Amount per share	Record date	Effective date
Board of Directors' meeting on May 30, 2017	Common stock	$ 52,325	Retained earnings	$ 0.12	March 31, 2017	May 31, 2017
Board of Directors' meeting on October 24, 2017	Common stock	$ 52,316	Retained earnings	$ 0.12	September 30, 2017	November 29, 2017

Dividends whose record date is during the year ended March 31, 2018, but whose effective date is in the following fiscal year are as follows:

Resolution adopted	Type of shares	Millions of yen Aggregate amount	Appropriation from	Yen Amount per share	Record date	Effective date
Board of Directors' meeting on May 29, 2018	Common stock	¥ 5,558	Retained earnings	¥ 13.00	March 31, 2018	May 31, 2018

Resolution adopted	Type of shares	Thousands of U.S. dollars Aggregate amount	Appropriation from	U.S. dollars Amount per share	Record date	Effective date
Board of Directors' meeting on May 29, 2018	Common stock	$ 52,316	Retained earnings	$ 0.12	March 31, 2018	May 31, 2018

Note 17. Other Income and Other Expenses

Other income and other expenses consist of the following items for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other income:			
Gain on reorganization (*)	¥ 406	¥ 8,475	$ 3,822
Other	4,995	5,595	47,016
Total other income	¥ 5,401	¥ 14,070	$ 50,838
Other expenses:			
Structural reform expenses	¥799	¥ 1,495	$ 7,521
Loss on disposal of property, plant and equipment	3,950	2,955	37,180
Impairment loss on property, plant and equipment	10,611	1,063	99,878
Compensation expenses	4,382	–	41,246
Other	4,463	6,273	42,009
Total other expenses	¥ 24,205	¥ 11,786	$ 227,833

(*) Gain on reorganization for the years ended March 31, 2018 and 2017, includes ¥400 million (US $3,765 thousand) and ¥4,311 million (before tax effects), respectively, as a result of the Group losing control of certain subsidiaries. There was no gain or loss resulting from the remeasurement at fair value of the investment retained in the former subsidiary for the years ended March 31, 2018 and 2017.

Note 18. Other Financial Income and Expenses

Other financial income and expenses for the years ended March 31, 2018 and 2017, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other financial income:			
Dividend income (*)	¥ 144	¥ 220	$ 1,355
Other	844	28	7,944
Total	¥ 988	¥ 248	$ 9,300
Other financial expenses:			
Exchange loss	1,148	1,150	10,806
Other	2	39	19
Total	¥ 1,150	¥ 1,189	$ 10,825

(*) Dividend income is from financial assets measured at FVTOCI.

Note 19. Earnings per Share

The calculation of basic earnings per share (EPS) attributable to shareholders of the parent company is summarized as follows:

	Thousands of shares	
	2018	2017
Weighted-average number of common stock on which basic EPS is calculated	427,573	427,578

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income attributable to shareholders of the parent company	¥ 42,210	¥ 50,593	$ 397,308

	Yen		U.S. dollars
	2018	2017	2018
Basic EPS attributable to shareholders of the parent company	¥ 98.72	¥ 118.32	$ 0.93

Note that diluted EPS attributable to shareholders of the parent company is not presented because no potentially dilutive shares of common stock were issued or outstanding for the years ended March 31, 2018 and 2017.

Note 20. Supplementary Explanation on the Consolidated Statement of Cash Flows

Changes in liabilities arising from financing activities during the fiscal year ended March 31, 2018, are as follows:

	Millions of yen			
	Short-term debt	Corporate bonds payable	Long-term debt	Total
Balance as of April 1, 2017	¥ 26,301	¥ 29,984	¥ 137,782	¥ 194,067
Increase (decrease) involving cash flows	2,335	(20,000)	(11,690)	(29,355)
Increase (decrease) not involving cash flows				
Effects of exchange rate changes and others	(1,433)	13	(2,646)	(4,066)
Balance as of March 31, 2018	¥ 27,203	¥ 9,997	¥ 123,446	¥ 160,646

	Thousands of U.S. dollars			
	Short-term debt	Corporate bonds payable	Long-term debt	Total
Balance as of April 1, 2017	$ 247,562	$ 282,229	$ 1,296,894	$ 1,826,685
Increase (decrease) involving cash flows	21,979	(188,253)	(110,034)	(276,308)
Increase (decrease) not involving cash flows				
Effects of exchange rate changes and others	(13,488)	122	(24,906)	(38,272)
Balance as of March 31, 2018	$ 256,052	$ 94,098	$ 1,161,954	$ 1,512,105

Note 21. Financial Instruments and Other Related Information

(1) Financial Risk

The Group is engaged in business activities worldwide, and therefore exposed to various risks, including interest rate risk, currency exchange rate risk, and credit risk.

(a) Market risk

The Group's major manufacturing bases are located in Japan and Asia, but its customers are geographically diversified. As a result, the Group is exposed to market risks from fluctuations in foreign currency exchange rates.

(i) Interest rate risk

The Group is exposed to interest rate risks related principally to long-term liabilities. In order to minimize interest rate risks, the Group enters into interest rate swap agreements to hedge future cash flow exposures to fluctuations in interest rates. Those interest rate swaps are receive-floating, pay-fixed interest rate swaps. For interest rate swaps, the Group receives floating interest rate payments on long-term liabilities, including borrowings, and pays fixed interest rate payments, thereby creating fixed interest rate long-term liabilities.

Sensitivity analysis:

Sensitivity analysis for the interest rates shown below indicates the impact of assumed changes in interest rates on income before income taxes in the Company's consolidated statement of income. If interest rates increased by 1% on financial instruments (floating-interest financial assets and liabilities measured at amortized cost, financial assets and liabilities measured at FVTPL, and derivatives), and all other variables were constant, the impact on the income before income taxes for the years ended March 31, 2018 and 2017, would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Impact on income before income taxes	¥ 225	¥ 986	$ 2,118

(ii) Currency exchange risk

The Group holds assets and liabilities exposed to currency exchange risks. In order to hedge currency exchange risks, the Group utilizes forward exchange contracts.

In order to stabilize future net cash flows from transactions denominated in foreign currencies for trade receivables and payables as well as forecast transactions, each month the Group measures the net amount of future cash flows on the settlement date for each currency and hedges fluctuation risk, mainly using forward exchange contracts for a portion of these transactions. As per the Group's policy, these contracts generally expire in one year.

Hedge relationships between forward exchange contracts and hedged items are highly effective in offsetting effects on hedged items (assets and liabilities denominated in foreign currencies) arising from changes in foreign currency exchange rates.

Sensitivity analysis:

Sensitivity analysis for the currency exchange rates shown below indicates the impact of increases or decreases in currency exchange rates on income before income taxes in the Company's consolidated statement of income. If the Japanese yen had depreciated by 1% against foreign-currency denominated financial instruments held by the Group, and all other variables were constant, the impact on the income before income taxes for the years ended March 31, 2018 and 2017, would have been as follows:

	Currency	Millions of yen		Thousands of U.S. dollars
		2018	2017	2018
Impact on income before income taxes	US Dollar	¥ 142	¥ 138	$ 1,337
	Euro	62	50	584
	Other	2	3	19

(b) Credit risk

Credit risk refers to the risk that the Group will incur a financial loss because customers or counterparties fail to discharge their contractual obligations related to a financial instrument or contract. The Group is exposed to credit risks because of its operating activities (primarily trade receivables) and financing activities, including deposits at financial institutions, currency transactions, and other financial instruments. No significant concentration of credit risk is present, as the Group has a diverse group of trading parties situated in many different regions.

The Group sets credit limits according to the credit risks of certain instruments or customers by periodically reviewing relevant factors, such as financial conditions and ratings.

The Group's maximum exposure to credit risk, without considering collateral held, is represented as the carrying amount of financial assets (excluding contingent liabilities) net of impairment losses, if any, in the consolidated statement of financial positions. The maximum exposure to credit risk from contingent liabilities is represented as the balance of contingent liabilities disclosed in Note 25. "Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)." Balances by contractual maturity of trade receivables and other assets that are past due at the end of the reporting period but not impaired are omitted from disclosures because such balances are not material.

Reconciliation of allowance for doubtful receivables is as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Balance at the beginning of the year	¥ 293	¥ 432	$ 2,758
Additions (provision)	604	495	5,685
Utilized (write off)	(2)	(46)	(19)
Unused amount reversed (recovery)	(657)	(624)	(6,184)
Other	(15)	36	(141)
Balance at the end of the year	¥ 223	¥ 293	$ 2,099

(c) Liquidity risk

The Group's fundamental financial policy is to maintain an appropriate level of liquidity and secure adequate funds for current and future business operations. The Group works to optimize capital utilization for its business operations through the efficient management of working capital. Further, the Group endeavors to improve group-wide capital management by centralizing this management function to the Company.

The Group also raises funds from both capital markets and commercial banks. The Group finances its capital expenditures primarily by drawing down internally generated funds and also through the issuance of debts and equity securities when necessary.

The Group also maintains commitment line agreements with a number of financial institutions to secure efficient funding as necessary. The total unused commitment lines as of March 31, 2018, are disclosed in Note 25. "Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)."

The following tables present balances by maturity of non-derivative financial liabilities held by the Group as of the reporting dates:

Note that the carrying amounts of trade payables and contractual cash flows match, and their due dates are all within one year. Hence, they are not included in the following tables.

	Millions of yen				
	March 31, 2018				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	¥ 27,203	¥ 27,363	¥ 27,363	¥ –	¥ –
Current portion of long-term debt					
Current portion of long-term borrowings	17,253	17,412	17,412	–	–
Current portion of corporate bonds payable	9,997	10,030	10,030	–	–
Lease obligations	118	118	118	–	–
Long-term debt					
Long-term borrowings	106,193	108,633	6,018	102,315	300
Lease obligations	80	80	–	80	–

	Millions of yen				
	March 31, 2017				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	¥ 26,301	¥ 26,458	¥ 26,458	¥ –	¥ –
Current portion of long-term debt					
Current portion of long-term borrowings	15,227	15,334	15,334	–	–
Current portion of corporate bonds payable	19,994	20,224	20,224	–	–
Lease obligations	241	242	241	–	–
Long-term debt					
Long-term borrowings	122,555	125,814	1,245	123,671	898
Corporate bonds payable	9,990	10,102	72	10,030	–
Lease obligations	149	149	–	149	–

	Thousands of U.S. dollars				
	March 31, 2018				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	$ 256,052	$ 257,558	$ 257,558	$ –	$ –
Current portion of long-term debt					
Current portion of long-term borrowings	162,396	163,893	163,893	–	–
Current portion of corporate bonds payable	94,098	94,409	94,409	–	–
Lease obligations	1,111	1,111	1,111	–	–
Long-term debt					
Long-term borrowings	999,558	1,022,524	56,645	963,055	2,824
Lease obligations	753	753	–	753	–

The weighted-average interest rates of short-term debt, the current portion of long-term debt, and long-term debt are 2.00%, 1.83%, and 0.87%, respectively. The maturities range from 2018 to 2026. The details of corporate bonds by issue are as follows:

Issuer	Issue	Issue date	Millions of yen		Thousands of U.S. dollars	Secured/ Unsecured	Interest rate (%)	Maturity
			March 31, 2018	March 31, 2017	March 31, 2018			
The Company	The 29th unsecured corporate bond	October 29, 2007	¥ –	¥ 19,994	$ –	Unsecured	1.97	October 27, 2017
The Company	The 30th unsecured corporate bond	September 13, 2011	¥ 9,997	¥ 9,990	$ 94,098	Unsecured	0.79	September 13, 2018
Total	–	–	¥ 9,997	¥ 29,984	$ 94,098	–	–	–

Contingent liabilities disclosed in Note 25. “Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)” are not included in the above table.

The following tables show the maturities of derivatives. Net settlement derivatives are also disclosed in gross amounts.

		Millions of yen			
		March 31, 2018			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	¥ 17	¥ –	¥ –	¥ 17
	Out	52	2	–	54
Copper futures contracts	In	6	–	–	6
	Out	–	–	–	–
Interest rate swaps	In	–	561	–	561
	Out	–	461	–	461
Put options	In	–	6,061	–	6,061
	Out	–	–	–	–

		Millions of yen			
		March 31, 2017			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	¥ 148	¥ –	¥ –	¥ 148
	Out	202	–	–	202
Interest rate swaps	In	–	167	–	167
	Out	–	620	–	620
Put options	In	–	6,061	–	6,061
	Out	–	–	–	–

		Thousands of U.S. dollars			
		March 31, 2018			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	$ 160	$ –	$ –	$ 160
	Out	489	19	–	508
Copper futures contracts	In	56	–	–	56
	Out	–	–	–	–
Interest rate swaps	In	–	5,280	–	5,280
	Out	–	4,339	–	4,339
Put options	In	–	57,050	–	57,050
	Out	–	–	–	–

(d) Capital management

The Group's fundamental capital management policy is to maintain an appropriate level of assets, liabilities, and capital for current and future business operations and to optimize capital efficiency for its business operations.

The ratio of equity attributable to shareholders of the parent company is viewed as a significant indicator for the Group's capital management. A specific ratio is targeted under the Group's medium-term management plan and continuously monitored.

The Group is not subject to significant capital requirements except for general rules, such as the Companies Act of Japan.

Equity attributable to shareholders of the parent company as of March 31, 2018, was ¥562,720 million (US $5,296,687 thousand), which increased by ¥26,157 million (US $246,207 thousand) from the year ended March 31, 2017. As a result, the ratio of equity attributable to shareholders of the parent company as of March 31, 2018, was 53.1%, an increase from 51.6% in the previous year.

(e) Risk of stock price fluctuations

The Group pursues profit in its business and enhances corporate value through reinforcing relationships, particularly with customers and suppliers, or by delivering proposals to its investees. As part of maintaining the relationship with customers, suppliers, or other parties, the Group occasionally invests in marketable securities and therefore is exposed to the risk of stock price fluctuations. To manage this risk, the Group regularly monitors the fair values of these instruments, financial conditions, and other factors of investees. Further, holdings of stocks are reviewed by the relevant department as appropriate, considering relationships with business partners.

(2) Fair Value of Investments in Securities and Other Financial Assets and Liabilities

(a) Methods and assumptions of fair value measurements

The following methods and assumptions are used to measure fair values of financial assets and liabilities:

Cash and cash equivalents, trade receivables, short-term debt, and trade payables:

Carrying amount of these assets and liabilities approximates their estimated fair value because of their short-term maturity.

Long-term debt:

Fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using market interest rates under similar contractual terms.

Investments in securities and other financial assets and liabilities (excluding long-term loans receivable):

Refer to fair value hierarchy at (e) "Fair value hierarchy" below.

Long-term loans receivable:

Fair value of long-term loans receivable is estimated based on the present value of future cash flows using interest rates applicable to obtain an additional loan under similar contractual terms.

(b) Fair value of investments in securities and other financial assets

Carrying amounts and estimated fair values of financial assets for the years ended March 31, 2018 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2018		March 31, 2017		March 31, 2018	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Financial assets measured at FVTPL						
Current						
Securities	¥ 790	¥ 790	¥ 643	¥ 643	$ 7,436	$ 7,436
Derivatives						
Forward exchange contracts	–	–	148	148	–	–
Copper futures contracts	6	6	–	–	56	56
Non-current						
Securities	1,791	1,791	1,843	1,843	16,858	16,858
Derivatives						
Interest rate swaps	100	100	–	–	941	941
Put options	6,061	6,061	6,061	6,061	57,050	57,050
Financial assets measured at FVTOCI						
Non-current						
Securities	10,876	10,876	10,231	10,231	102,372	102,372
Financial assets measured at amortized cost						
Current						
Short-term loans receivable	1	1	116	116	9	9
Non-current						
Other debt securities	1,911	1,911	2,082	2,082	17,988	17,988
Long-term loans receivable	612	612	711	711	5,761	5,761

Equity instruments are securities measured at FVTOCI.

(c) Fair value of financial assets measured at FVTOCI

The following is a list of major equity instruments designated as FVTOCI and their fair values as of the reporting dates:

Millions of yen	
March 31, 2018	
Equity instruments	Fair value
Riken Corporation	¥ 2,133
Kakimoto Co., Ltd.	1,360
Kowa Kogyosho Co., Ltd.	1,265
OSG Corporation	894
Konwa Kaikan	802
Owari Precise Products Co., Ltd.	479
Kojima Co., Ltd.	329
Santoku Corporation	276
WEARE Pacific Co., Ltd.	249
Mikuni Shoji Co., Ltd.	224

Millions of yen	
March 31, 2017	
Equity instruments	Fair value
Riken Corporation	¥ 1,750
Kakimoto Co., Ltd.	1,274
Kowa Kogyosho Co., Ltd.	1,154
OSG Corporation	833
Konwa Kaikan	827
Owari Precise Products Co., Ltd.	434
Kojima Co., Ltd.	324
Santoku Corporation	266
Yamaichi Special Steel Co., Ltd	246
Mikuni Shoji Co., Ltd.	207

Thousands of U.S. dollars	
March 31, 2018	
Equity instruments	Fair value
Riken Corporation	$ 20,077
Kakimoto Co., Ltd.	12,801
Kowa Kogyosho Co., Ltd.	11,907
OSG Corporation	8,415
Konwa Kaikan	7,549
Owari Precise Products Co., Ltd.	4,509
Kojima Co., Ltd.	3,097
Santoku Corporation	2,598
WEARE Pacific Co., Ltd.	2,344
Mikuni Shoji Co., Ltd.	2,108

(d) Fair value of financial liabilities
Carrying amounts and estimated fair values of financial liabilities as of the reporting dates are as follows:
The Group holds no financial liabilities designated at initial recognition as financial liabilities measured at FVTPL.

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2018		March 31, 2017		March 31, 2018	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Financial liabilities measured at FVTPL						
Current						
Derivatives						
Forward exchange contracts	¥ 35	¥ 35	¥ 202	¥ 202	$ 329	$ 329
Non-current						
Derivatives						
Interest rate swaps	–	–	453	453	–	–
Forward exchange contracts	2	2	–	–	19	19
Financial liabilities measured at amortized cost						
Current						
Short-term debt	27,203	27,203	26,301	26,301	256,052	256,052
Current portion of long-term debt						
Current portion of long-term borrowings	17,253	17,390	15,227	15,330	162,396	163,686
Current portion of corporate bonds payable	9,997	10,032	19,994	20,224	94,098	94,428
Lease obligations	118	118	241	241	1,111	1,111
Non-current						
Long-term debt						
Long-term borrowings	106,193	107,886	122,555	125,311	999,558	1,015,493
Corporate bonds payable	–	–	9,990	10,110	–	–
Lease obligations	80	80	149	149	753	753

Since the fair value of finance lease obligations is not material to the consolidated statement of financial position, it is measured as the present value of the minimum lease payments discounted by the interest rates used at the initial recognition of lease obligations. Accordingly, the fair value is based on the relevant carrying amount.

(e) Fair value hierarchy
Financial instruments measured at fair value on a recurring basis after initial recognition are classified into three levels of a fair value hierarchy based on observability and materiality of inputs used for fair value measurement. The three levels of the hierarchy are as follows:

Level 1:
Fair value measured using quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2:

Fair value measured using direct or indirect observable inputs other than the quoted prices included in Level 1.

Level 3:

Fair value measured using unobservable inputs.

When several inputs are used for a fair value measurement, the measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels are deemed to have occurred at the beginning of each quarter period.

Securities:

Securities that can be measured at fair value through quoted market prices are included in Level 1. Those securities include listed stocks, government bonds or other debt securities, and exchange traded funds.

In the absence of an active market for securities, the following are used as inputs for fair value measurement: quoted prices for similar securities; quoted prices for transactions that are not distressed for identical or similar securities; or other relevant information, including observable interest rates and yield curves, credit spreads, and default rates. These inputs are included in Level 2. Included in Level 2 are short-term investments and listed stocks traded over-the-counter.

Shares of non-listed companies and other instruments, whose significant inputs for fair value measurement are unobservable, are included in Level 3. The Group uses price information provided by financial institutions to evaluate these investments. The Group corroborates the information using an income approach based on its own valuation model or a market approach, such as comparison with prices of similar securities.

Derivatives:

Derivatives measured in a model using the following are included in Level 2: quoted prices under transactions that are not distressed, quoted prices in markets that are not active, and observable interest rates and yield curves or forward and spot prices for currencies and commodities. Level 2 derivatives mainly include interest rate swaps, forward foreign exchange contracts, and commodity futures contracts.

Financial assets and liabilities measured at amortized cost:

Financial assets and liabilities measured at amortized cost are included primarily in Level 2 or Level 3.

The following tables present financial instruments that are measured at fair value on a recurring basis and the fair value hierarchy classification as of March 31, 2018 and 2017:

	Millions of yen			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	¥ 790	¥ –	¥ –	¥ 790
Derivatives	–	6	–	6
FVTPL (Non-current)				
Securities	–	1,002	789	1,791
Derivatives	–	100	6,061	6,161
FVTOCI (Non-current)	3,811	–	7,065	10,876
Liabilities				
FVTPL (Current)	–	35	–	35
FVTPL (Non-current)	–	2	–	2

	Millions of yen			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	¥ 643	¥ –	¥ –	¥ 643
Derivatives	–	148	–	148
FVTPL (Non-current)				
Securities	–	1,007	836	1,843
Derivatives	–	–	6,061	6,061
FVTOCI (Non-current)	3,341	–	6,890	10,231
Liabilities				
FVTPL (Current)	–	202	–	202
FVTPL (Non-current)	–	453	–	453

	Thousands of U.S. dollars			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	$ 7,436	$ –	$ –	$ 7,436
Derivatives	–	56	–	56
FVTPL (Non-current)				
Securities	–	9,431	7,427	16,858
Derivatives	–	941	57,050	57,991
FVTOCI (Non-current)	35,872	–	66,500	102,372
Liabilities				
FVTPL (Current)	–	329	–	329
FVTPL (Non-current)	–	19	–	19

Financial liabilities (current and non-current) measured at FVTPL represent derivatives.

The following tables present the changes in Level 3 instruments whose fair values were measured on a recurring basis for the years ended March 31, 2018 and 2017:

	Millions of yen		
	FVTPL	FVTOCI	Total
At April 1, 2016	¥ 7,189	¥ 8,267	¥ 15,456
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	(476)	(476)
Sales or redemption	(346)	(906)	(1,252)
Purchases or acquisition	49	–	49
Other	5	5	10
At March 31, 2017	¥ 6,897	¥ 6,890	¥ 13,787
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	188	188
Sales or redemption	(84)	(4)	(88)
Purchases or acquisition	36	–	36
Other	1	(9)	(8)
At March 31, 2018	¥ 6,850	¥ 7,065	¥ 13,915

	Thousands of U.S. dollars		
	FVTPL	FVTOCI	Total
At March 31, 2017	$ 64,919	$ 64,853	$ 129,772
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	1,770	1,770
Sales or redemption	(791)	(38)	(828)
Purchases or acquisition	339	–	339
Other	9	(85)	(75)
At March 31, 2018	$ 64,477	$ 66,500	$ 130,977

There were no changes in unrealized gains (losses) recognized in profit or loss relating to assets held as of March 31, 2018 and 2017.

Such gains (losses) in profit or loss are included in other financial income and other financial expenses in the consolidated statement of income.

(3) Derivative Instruments and Hedging Activities

Cash flow hedge:

Foreign currency exposure:

Changes in the fair value of forward exchange contracts designated as cash flow hedges for forecasted foreign currency transactions are reported in other comprehensive income. These amounts are reclassified into profit or loss in the same period as foreign exchange gains or losses on hedged items are recognized in profit or loss.

Interest rate exposure:

Changes in fair values of interest rate swaps designated as hedging instruments for fluctuation in cash flows associated with long-term debt obligations are reported in other comprehensive income. The amount in accumulated other comprehensive income is subsequently reclassified to other financial income and expenses over the period in which interest expenses are recognized in profit or loss.

As of March 31, 2018, the expected period for cash flows arising from hedged items and affecting profit or loss is to be from April 2017 to June 2021.

The fair values of derivatives designated as hedging instruments as of March 31, 2018 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2018		March 31, 2017		March 31, 2018	
	Asset	Liability	Asset	Liability	Asset	Liability
Cash flow hedges						
Forward exchange contracts	¥ 17	¥ 54	¥ 1	¥ 202	$ 160	$ 508
Interest rate swaps	561	461	167	620	5,280	4,339
Total	¥ 578	¥ 515	¥ 168	¥ 822	$ 5,441	$ 4,848

The fair values of derivative assets and liabilities to which hedge accounting is not applied were ¥6,067 million (US $57,107 thousand) and ¥– million (US $– thousand), respectively, as of March 31, 2018, and ¥6,208 million and ¥– million, respectively, as of March 31, 2017.

The contract or notional amounts of derivatives as of March 31, 2018 and 2017, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Forward exchange contracts:			
To sell foreign currencies	¥ 913	¥ 7,622	$ 8,594
To buy foreign currencies	1,427	3,089	13,432
Interest rate swaps	92,684	105,986	872,402
Copper futures contracts	132	–	1,242

The following tables present the amounts in relation to cash flow hedges recognized in the consolidated statement of income for the year ended March 31, 2018:

Gain or loss recognized in OCI

Effective portion of derivatives designated as hedging instruments

Derivatives	Millions of yen	Thousands of U.S. dollars
Forward exchange contracts	¥ (79)	$ (744)
Interest rate swaps	100	941
Copper futures contracts	6	56
Total	¥ 27	$ 254

Gain or loss reclassified from OCI into profit or loss

Effective portion of derivatives designated as hedging instruments

Derivatives	Recognized in consolidated statement of income	Millions of yen	Thousands of U.S. dollars
Forward exchange contracts	Other financial income and expenses	¥ 144	$ 1,355
Interest rate swaps	Other financial income and expenses	453	4,264
Total		¥ 597	$ 5,619

The following tables present the amounts in relation to cash flow hedges recognized in the consolidated statement of income for the year ended March 31, 2017:

Gain or loss recognized in OCI
Effective portion of derivatives designated as hedging instruments

Derivatives	Millions of yen
Forward exchange contracts	¥ (155)
Interest rate swaps	(453)
Total	¥ (608)

Gain or loss reclassified from OCI into profit or loss
Effective portion of derivatives designated as hedging instruments

Derivatives	Recognized in consolidated statement of income	Millions of yen
Forward exchange contracts	Other financial income and expenses	¥ (50)
Interest rate swaps	Other financial income and expenses	2,262
Copper futures contracts	Other financial income and expenses	(1)
Total		¥ 2,211

Note 22. Pledged Assets

The following assets were pledged as collateral by certain subsidiaries for their accounts payables as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2017	March 31, 2018
Securities and other financial assets	¥ 122	¥ 114	$ 1,148
Total	¥ 122	¥ 114	$ 1,148

Note 23. Major Subsidiaries and Associates

The Company’s parent company is Hitachi, Ltd., which is located in Japan. The Company’s consolidated financial statements include the following subsidiaries:

As of March 31, 2018

Name	Location	Principal business	Ownership %
Hitachi Metals Tool Steel, Ltd.	Minato-ku, Tokyo	Specialty Steel Products	100.0
Hitachi Metals Neomaterial, Ltd.	Suita, Osaka	Specialty Steel Products	100.0
Hitachi Metals Wakamatsu, Ltd.	Wakamatsu-ku, Kita-kyushu, Fukuoka	Specialty Steel Products	100.0
Hitachi Metals Precision, Ltd.	Minato-ku, Tokyo	Specialty Steel Products	100.0
HMY, Ltd.	Yasugi, Shimane	Specialty Steel Products	100.0
Hitachi Metals MMC Superalloy, Ltd.	Okegawa, Saitama	Specialty Steel Products	100.0
NEOMAX KINKI Co., Ltd.	Yabu, Hyogo	Magnetic Materials and Applications	100.0
NEOMAX ENGINEERING Co., Ltd.	Takasaki, Gunma	Magnetic Materials and Applications	100.0
Hitachi Ferrite Electronics, Ltd.	Tottori, Tottori	Manufacturing and sales of products	100.0
NEOMAX KYUSHU Co., Ltd.	Takeo, Saga	Magnetic Materials and Applications	100.0
Hitachi Metals FineTech, Ltd.	Kuwana, Mie	Functional Components and Equipment	100.0
Alcast, Ltd.	Kumagaya, Saitama	Functional Components and Equipment	100.0
Kyushu Technometal Co., Ltd.	Miyako, Fukuoka	Functional Components and Equipment	100.0
Hitachi Metals Trading, Ltd.	Minato-ku, Tokyo	Sales of products	100.0
Tonichi Kyosan Cable, Ltd.	Ishioka, Ibaraki	Wires, Cables, and Related Products	100.0
Ibaraki Technos, Ltd.	Hitachi, Ibaraki	Manufacturing and sales of products	100.0
SH Copper Products Co., Ltd.	Tsuchiura, Ibaraki	Specialty Steel Products	100.0
Hitachi Metals Solutions, Ltd.	Minato-ku, Tokyo	Real estate business and others	100.0
Metglas, Inc.	South Carolina, U.S.A.	Specialty Steel Products	100.0
Hitachi Metals Korea Co., Ltd.	Gyeonggi-do, South Korea	Manufacturing and sales of products	100.0
Baosteel Hitachi Rolls (Nantong) Co., Ltd.	Jiangsu, China	Specialty Steel Products	70.0
San Technology, Inc.	Cavite, Philippines	Magnetic Materials and Applications	100.0
Pacific Metals Co., Ltd.	North Gyeongsang, South Korea	Magnetic Materials and Applications	100.0
PT. HITACHI METALS INDONESIA	Banten, Indonesia	Magnetic Materials and Applications	100.0
Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd.	Jiangsu, China	Magnetic Materials and Applications	51.0
Waupaca Foundry, Inc.	Wisconsin, U.S.A.	Functional Components and Equipment	100.0
AAP St. Marys Corp.	Ohio, U.S.A.	Functional Components and Equipment	100.0
Namyang Metals Co., Ltd.	Daegu, South Korea	Functional Components and Equipment	90.8
Ward Manufacturing, LLC	Pennsylvania, U.S.A.	Functional Components and Equipment	100.0

As of March 31, 2018

Name	Location	Principal business	Ownership %
Hitachi Metals America, Ltd.	New York, U.S.A.	Sales of products	100.0
Hitachi Metals Hong Kong Ltd.	Hong Kong, China	Sales of products	100.0
Hitachi Metals Europe GmbH	Dusseldorf, Germany	Sales of products	100.0
Hitachi Metals Singapore Pte. Ltd.	Singapore	Sales of products	100.0
Hitachi Metals Taiwan, Ltd.	New Taipei, Taiwan	Manufacturing and sales of products	100.0
Hitachi Metals (Thailand) Ltd.	Ayutthaya, Thailand	Manufacturing and sales of products	100.0
Hitachi Metals (Suzhou) Technology, Ltd.	Jiangsu, China	Manufacturing and sales of products	100.0
Hitachi Metals (China), Ltd.	Shanghai, China	Sales of products	100.0
Hitachi Cable America Inc.	New York, U.S.A.	Manufacturing and sales of products	100.0
Hitachi Cable (Suzhou) Co., Ltd.	Jiangsu, China	Wires, Cables, and Related Products	100.0
Hitachi Cable (Johor) Sdn. Bhd.	Johor, Malaysia	Wires, Cables, and Related Products	100.0
Hitachi Cable Vietnam Co., Ltd.	Hai Duong, Vietnam	Manufacturing and sales of products	100.0
Thai Hitachi Enamel Wire Co., Ltd.	Bangpakong Chachoengsao, Thailand	Wires, Cables, and Related Products	49.4
HC Queretaro, S.A. de C.V.	Queretaro, Mexico	Wires, Cables, and Related Products	100.0
Others 26 companies	–	–	–

Note 24. Transactions with Related Parties

(1) Transactions with Related Parties

Transactions with the related parties are as follows:

For the year ended March 31, 2018:

Attribution	Name	Nature of transaction	Millions of yen: Transaction amount	Millions of yen: Balance at year-end	Thousands of U.S. dollars: Transaction amount	Thousands of U.S. dollars: Balance at year-end
Parent company	Hitachi, Ltd.	Deposits with Hitachi Group cash pooling system (*1) (*3)	Withdrawal ¥ 76,125 (*4)	¥ 8,059	Deposit $ 716,538 (*4)	$ 75,857
Company with the same parent company	Hitachi America Capital, Ltd.	Borrowings from a cash pooling system (*2) (*3)	Borrowings ¥ 5,660 (*4)	¥ 19,123	Borrowings $ 53,276 (*4)	$ 179,998
Associate	SUMIDEN HITACHI CABLE Ltd.	Sales of products (*5)	¥ 24,016	¥ 14,233	$ 226,054	$ 133,970

For the year ended March 31, 2017:

Attribution	Name	Nature of transaction	Millions of yen: Transaction amount	Millions of yen: Balance at year-end
Parent company	Hitachi, Ltd.	Deposits with Hitachi Group cash pooling system (*1) (*3)	Deposit ¥ 18,315 (*4)	¥ 84,184
Company with the same parent company	Hitachi America Capital, Ltd.	Borrowings from a cash pooling system (*2) (*3)	Borrowings ¥ 10,955 (*4)	¥ 13,463

*1 The Company participates in the Hitachi Group's cash pooling system, an initiative intended to provide integrated management of funds. Balance at the end of the fiscal year indicates deposit balance as of the year-end.

*2 The Company participates in the Hitachi Group's cash pooling system, where Hitachi America Capital Ltd. is a key participant, an initiative intended to provide integrated management of funds. Balance at the end of the fiscal year indicates borrowings balance as of the year-end.

*3 Interest rates on funding are reasonably determined based on market interest rates.

*4 As deposits and withdrawals are made on a daily basis, transaction amounts represent differences between the beginning and ending balances for the year.

*5 Transaction terms for sales of products are determined in the same manner as regular transaction terms based on their market prices

(2) Compensation for Key Management Personnel

Compensation for key management personnel of the Group is as follows:

	Millions of yen		Thousands of U.S. dollars
	For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018
Short-term employee benefits	¥ 642	¥ 608	$ 6,043

Note 25. Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)

(1) Loan Commitments

The Group has lines of credit arrangements with banks in order to secure financing sources for business operations. The total unused lines of credit as of March 31, 2018 and 2017, were ¥40,000 million (US $376,506 thousand) and ¥40,000 million, respectively. The Group also has overdraft facilities with banks. The unused facilities under these agreements as of March 31, 2018 and 2017, were ¥71,318 million (US $671,291 thousand) and ¥79,818 million, respectively.

(2) Commitments for Acquisition of Assets

Outstanding commitments for the purchase of property, plant and equipment as of March 31, 2018 and 2017, were ¥53,326 million (US $501,939 thousand) and ¥41,751 million, respectively.

(3) Guarantee Obligations

The Group was contingently liable for loan guarantees and other guarantees to its associates and third parties in the amounts of ¥3,644 million (US $34,300 thousand) and ¥4,126 million as of March 31, 2018 and 2017, respectively.

Note 26. Subsequent Events

There are no applicable items.

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
ey.com

Independent Auditor's Report

The Board of Directors
Hitachi Metals, Ltd.

We have audited the accompanying consolidated financial statements of Hitachi Metals, Ltd. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 19, 2018
Tokyo, Japan