Financial Section

2019 ANNUAL REPORT
Year Ended March 31, 2019

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					
	2019	2018	2017	2016	2015	2014
Results for the period:						
Revenues	¥ 1,023,421	¥ 988,303	¥ 910,486	¥ 1,017,584	¥ 1,004,373	¥ 807,794
Cost of sales	(851,029)	(803,607)	(731,153)	(819,433)	(793,517)	(637,081)
Selling, general and administrative expenses	(120,965)	(119,566)	(113,350)	(122,090)	(126,446)	(106,851)
Other income	10,667	5,401	14,070	36,416	21,303	5,844
Other expenses	(19,652)	(24,205)	(11,786)	(12,523)	(21,306)	(16,278)
Operating income	42,442	46,326	68,267	99,954	84,407	53,428
Income (loss) before income taxes and non-controlling interests	43,039	46,985	66,016	96,233	86,391	55,820
Net income (loss) attributable to shareholders of the parent company	31,370	42,210	50,593	69,056	70,569	48,133
Cash flows for the period:						
Cash flows from operating activities	66,582	39,133	89,391	115,742	108,983	99,171
Cash flows from investing activities	(96,247)	(75,080)	(35,864)	(32,147)	(113,750)	(9,832)
Free cash flows	(29,665)	(35,947)	53,527	83,595	(4,767)	89,339
Growth initiative costs:						
Capital expenditures	95,389	91,786	63,843	59,602	51,474	31,987
Depreciation and amortization	50,901	46,138	43,039	42,927	39,917	33,762
Research and development	18,604	17,749	17,971	19,121	20,903	16,814
At the period-end:						
Total assets	¥ 1,099,252	¥ 1,058,832	¥ 1,040,390	¥ 1,033,311	¥ 1,083,450	¥ 848,772
Interest-bearing debt	202,098	160,844	194,457	220,376	255,350	177,195
Net assets	595,211	570,192	548,746	504,675	476,176	382,840
Number of outstanding shares (thousands)	427,569	427,572	427,576	427,579	427,601	427,657
Number of shareholders	28,053	29,148	25,302	28,582	26,287	29,308
Number of employees	30,304	30,390	28,754	29,157	30,278	26,850
Per share of common stock (yen):						
Net income (loss):						
Basic	¥ 73.37	¥ 98.72	¥ 118.32	¥ 161.50	¥ 165.02	¥ 116.79
Cash dividends	34.00	26.00	26.00	26.00	23.00	17.00
Net assets	1,375.16	1,316.08	1,254.89	1,159.70	1,090.64	870.36
Key financial indicators:						
Operating income margin (%)	4.1	4.7	7.5	9.8	8.4	6.6
Return on Sales (ROS) (%)	3.1	4.3	5.6	6.8	7.0	6.0
Return on Assets (ROA) (%)	4.0	4.5	6.4	9.1	8.9	8.0
Return on Equity (ROE) (%)	5.5	7.7	9.8	14.4	16.8	15.6
Shareholders' equity ratio (%)	53.5	53.1	51.6	48.0	43.0	43.9
Debt/equity ratio (%)	34.4	28.6	36.2	44.4	54.8	47.6

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, 2019, is included in this annual report solely for the convenience of readers outside Japan. The translation has been made at the rates of ¥110.99 = $1 and ¥124.56 = €1, the approximate exchange rates as of March 31, 2019.
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

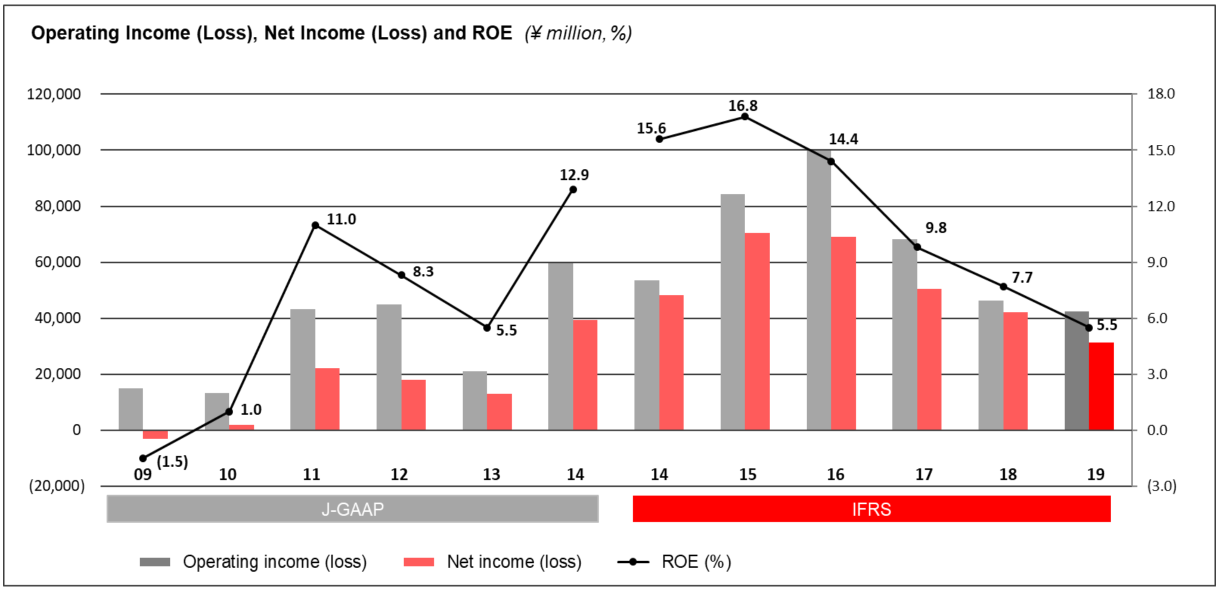
Hitachi Metals, Ltd. and Consolidated Subsidiaries
As of and for the Years Ended March 31

	Thousands of U.S. dollars (except per share amounts)	Thousands of euros (except per share amounts)
	IFRS	
	2019	2019
Results for the period:		
Revenues	$ 9,220,840	€ 8,216,289
Cost of sales	(7,667,619)	(6,832,282)
Selling, general and administrative expenses	(1,089,873)	(971,138)
Other income	96,108	85,637
Other expenses	(177,061)	(157,771)
Operating income	382,395	340,735
Income (loss) before income taxes and non-controlling interests	387,774	345,528
Net income (loss) attributable to shareholders of the parent company	282,638	251,846
Cash flows for the period:		
Cash flows from operating activities	599,892	534,538
Cash flows from investing activities	(867,168)	(772,696)
Free cash flows	(267,276)	(238,158)
Growth initiative costs:		
Capital expenditures	859,438	765,808
Depreciation and amortization	458,609	408,646
Research and development	167,619	149,358
At the period-end:		
Total assets	$ 9,904,063	€ 8,825,080
Interest-bearing debt	1,820,867	1,622,495
Net assets	5,362,744	4,778,508
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	$ 0.66	€ 0.59
Cash dividends	0.31	0.27
Net assets	12.39	11.04
Key financial indicators:		
Operating income margin (%)	—	—
Return on Sales (ROS) (%)	—	—
Return on Assets (ROA) (%)	—	—
Return on Equity (ROE) (%)	—	—
Shareholders' equity ratio (%)	—	—
Debt/equity ratio (%)	—	—

	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 (%)	48.5	58.3	76.8	71.9

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
Results for the period:		
Net sales	¥ 431,683	¥ 590,704
Cost of sales	(352,382)	(495,948)
Selling, general and administrative expenses	(65,952)	(79,698)
Operating income	13,349	15,058
Income (loss) before income taxes and minority interests	5,727	(200)
Net income (loss) attributable to shareholders of the parent company	1,937	(3,016)
Cash flows for the period:		
Cash flows from operating activities	57,012	32,699
Cash flows from investing activities	(21,495)	(37,347)
Free cash flows	35,517	(4,648)
Growth initiative costs:		
Capital expenditures	16,485	43,768
Depreciation and amortization	30,494	31,814
Research and development	10,626	13,083
At the period-end:		
Total assets	¥ 517,984	¥ 530,191
Interest-bearing debt	170,664	190,119
Net assets	212,783	214,576
Number of outstanding shares (thousands)	352,472	352,498
Number of shareholders	13,885	14,175
Number of employees	17,806	18,740
Per share of common stock (yen):		
Net income (loss):		
Basic	¥ 5.50	¥ (8.56)
Cash dividends	12.00	13.00
Net assets	548.76	550.79
Key financial indicators:		
Operating income margin (%)	3.1	2.5
Return on Sales (ROS) (%)	0.4	(0.5)
Return on Assets (ROA) (%)	1.1	(0.0)
Return on Equity (ROE) (%)	1.0	(1.5)
Shareholders' equity ratio (%)	37.3	36.6
Debt/equity ratio (%)	88.2	97.9



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, 2019, the global economy remained on a modest rebound track primarily in developed countries. Steady economic recovery continued in the United States, underpinned by a continued improvement in the employment situation and an increase in individual consumption and capital expenditures. Emerging countries in Asia were also generally on a modest recovery path. The Chinese economy gradually slowed down as a result of the trade conflict with the United States and a slowdown in domestic demand, which contributed to keeping production and export levels unchanged in Europe. Amid such circumstances, the Japanese economy was faced with a fall in business confidence due to the impact of the natural disasters that hit the country during the second quarter ended September 30, 2018 (July through September 2018), and a decrease in the industrial production indexes and export volume indexes starting from the end of 2018, led by the economic slowdown in China and Europe.

Among the industries in which the Group operates, the automobile industry in Japan saw solid sales of new vehicles, mainly light vehicles. In the United States, the industry enjoyed firm sales mainly of commercial vehicles and trucks, against the backdrop of continued economic recovery, whereas in China, there was a significant drop in sales, mainly of passenger vehicles, and in Europe, there continued to be a declining trend in sales that has been seen since the autumn. Demand for steel remained firm, especially in the manufacturing sector. Housing starts remained unchanged both in Japan and the United States. In the electronics field, smartphone shipments decreased.

Business Overview

For the fiscal year ended March 31, 2019, although the revenues of the Group increased by 3.6% year-on-year to ¥1,023,421 million, it can be considered a generally flat performance year on year after removing the impact of the rise in raw material prices (sliding-scale raw material price system). Adjusted operating income decreased by ¥13,703 million to ¥51,427 million year-on-year. This was mainly due to a slowdown in the electronics-related and semiconductor-related markets, a decline in demand for various manufacturing equipment and industrial machinery, a decrease in sales of new vehicles in China and Europe, and a strengthening of growth investment for the future, despite successful cost reduction measures. The Group has positioned heat-resistant exhaust casting components and aluminum wheels as "businesses with issues" and is making efforts in structural reforms. Under the business circumstances described above, the Group has been taking measures, including productivity improvement, correction of selling prices, and adjustment of production volumes, with the aim of improving profitability of heat-resistant exhaust casting components. As a result, profitability improved to a certain extent, but it is expected that the profit forecast made at the beginning of the fiscal year cannot be achieved, mainly because of a sharp decline in demand especially in the Chinese and European markets during the third quarter ended December 31, 2018 (October through December 2018). Therefore, the Group recorded an impairment loss of ¥6,975 million in the third quarter ended December 31, 2018, following careful examination and estimation of future profitability. Regarding the aluminum wheels business, the Group announced that it will withdraw from the business by the end of September 2020, and recorded structural reform expenses of ¥3,303 million in the fiscal year ended March 31, 2019, as losses associated with the transfer of shares of AAP St. Marys Corp., a consolidated subsidiary manufacturing aluminum wheels. Furthermore, the Group recorded total of ¥5,757 million in gain on bargain purchase and gain on a step acquisition under other income, which was generated from making Santoku Corporation a consolidated subsidiary of the Company as of April 2, 2018, with the aim of further accelerating efforts relating to neodymium magnet alloys and the development of new recycling technologies, which are areas in which the Group has been aggressively investing up until now. As a result, operating income decreased by ¥3,884 million to ¥42,442 million year-on-year. Income before income taxes decreased by ¥3,946 million to ¥43,039 million, and net income attributable to shareholders of the parent company decreased by ¥10,840 million to ¥31,370 million year-on-year.

Business Results for the Fiscal Year Ended March 31, 2019

Revenues

Revenues for the fiscal year ended March 31, 2019, increased by ¥35,118 million to ¥1,023,421 million, or 3.6 % year on year.

Domestic sales for the fiscal year ended March 31, 2019, accounted for 43.9% of total revenues, an increase of ¥17,435 million, or 4.0% year-on-year, to ¥448,984 million.

Overseas sales increased overall in the fiscal year ended March 31, 2019, amounting to ¥574,437 million, an increase of ¥17,683 million, or 3.2% year-on-year. In particular, sales in North America increased to ¥310,880 million, an increase of ¥16,044 million, or 5.4% year-on-year. Sales in Asia were ¥200,703 million, an increase of ¥2,627 million, or 1.3% year-on-year, while sales in Europe were ¥50,406 million, a decrease of ¥1,041 million, or 2.0% year-on-year.

Overseas sales accounted for 56.1% of total revenues in the fiscal year ended March 31, 2019, which was a similar sales rate to that of the previous year. The Group has set the percentage of overseas sales as 56.0% for the fiscal year ending March 31, 2020.

Operating Income

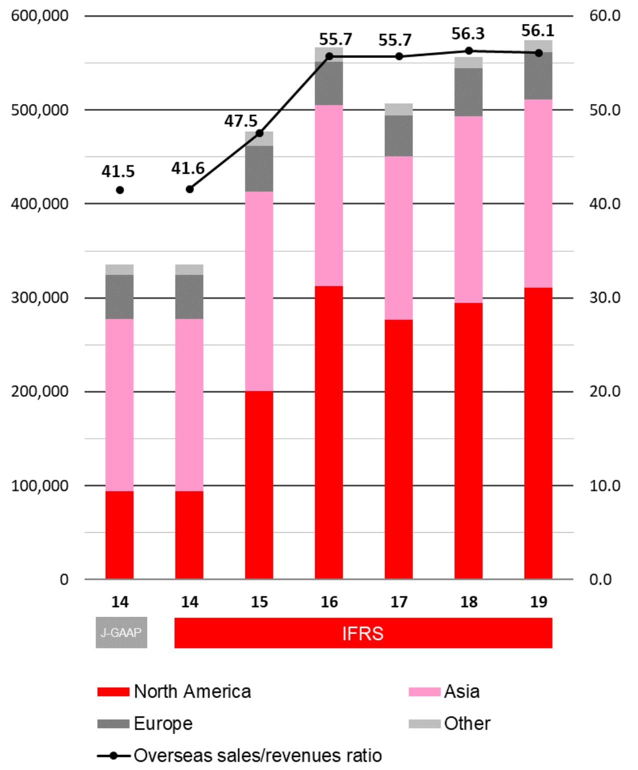
Operating income dropped by ¥3,884 million, or 8.4% year-on-year, to ¥42,442 million. The operating income margin was 4.1%, a decrease of 0.6 percentage points year-on-year. The operating income decreased primarily due to increases in the cost of sales and selling, general, and administrative expenses, partially offset by gain on reorganization recognized as other income during the fiscal year ended March 31, 2019.

Net Income and ROE

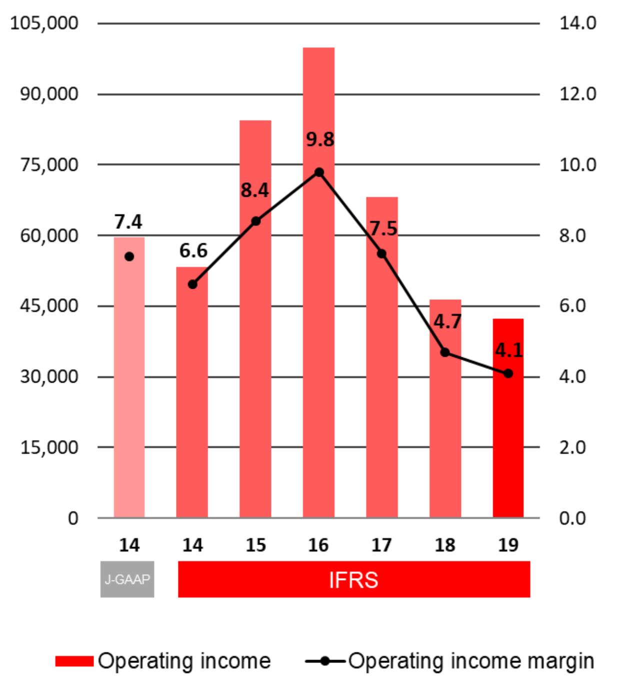
Interest income less interest expense for the fiscal year ended March 31, 2019, resulted in net interest expense of ¥2,304 million, an increase of ¥419 million, or 22.2% year-on-year. Income before income taxes decreased by ¥3,946 million, or 8.4%, to ¥43,039 million, and net income attributable to shareholders of the parent company decreased by ¥10,840 million, or 25.7%, to ¥31,370 million, compared with the fiscal year ended March 31, 2018. Net income for the fiscal year ended March 31, 2019, decreased by ¥10,832 million, or 25.7%, to ¥31,243 million. Net income per share was ¥73.37, while it was ¥98.72 for the fiscal year ended March 31, 2018.

Return on equity (ROE) decreased to 5.5% for the fiscal year ended March 31, 2019, mainly due to a decrease in net income. Return on assets (ROA) was 4.0%, return on sales (ROS) was 3.1%, and the financial leverage ratio remained stable at 1.9 times for the fiscal year ended March 31, 2019.

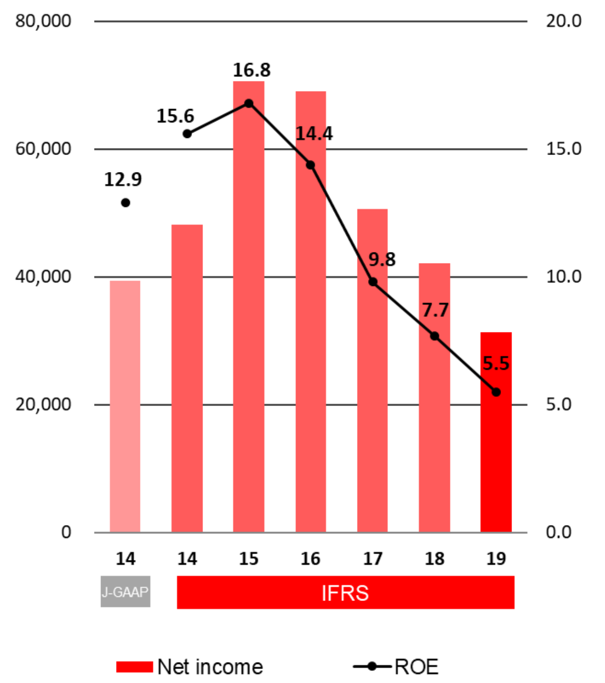
Overseas Sales/Revenues and Overseas Sales/Revenues Ratio
(¥ million, %)



Operating Income and Operating Income Margin
(¥ million, %)



Net Income and ROE
(¥ million, %)



Business Results by Segment

Business Segment Information

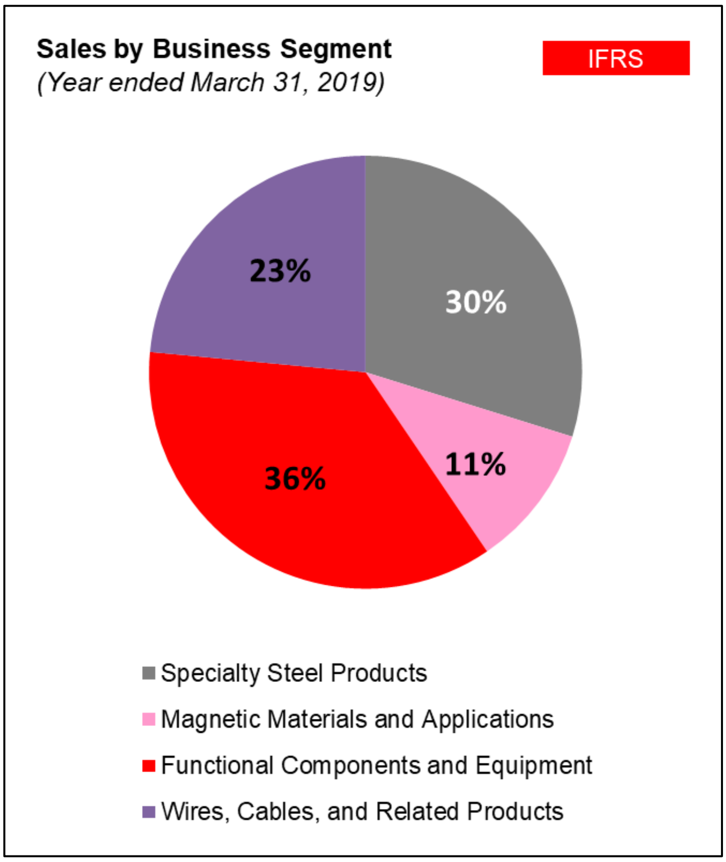
Segment revenues include intersegment sales and transfers. Business segment results are as follows:

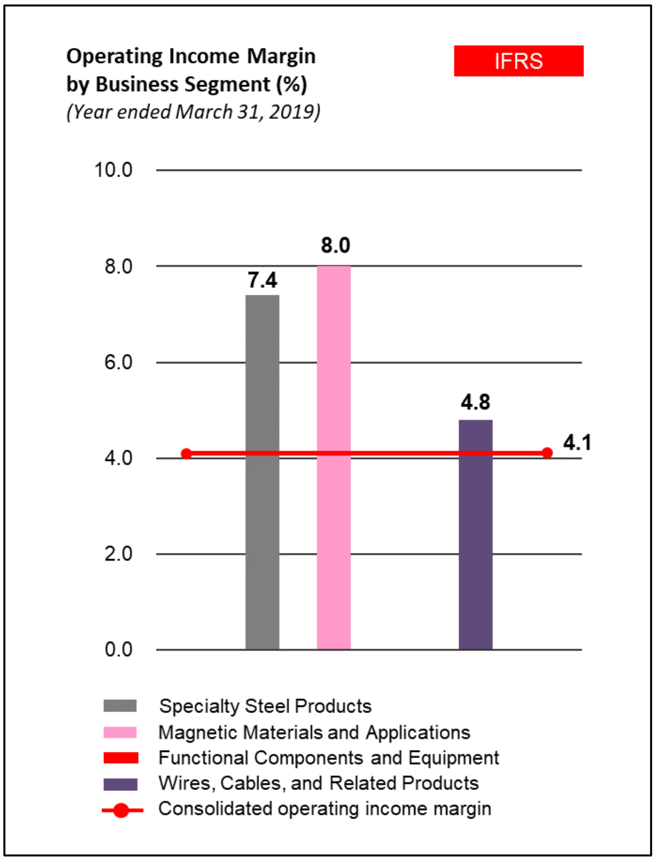
Revenues by Business Segment

Years ended March 31	Millions of yen 2019	2018	Percentage Increase (decrease)
Revenues (including intersegment sales and transfers):			
Specialty Steel Products	**¥ 304,562**	¥ 290,599	4.8%
Magnetic Materials and Applications	**109,351**	106,131	3.0
Functional Components and Equipment	**367,563**	360,053	2.1
Wires, Cables, and Related Products	**240,123**	230,532	4.2
Others	**4,429**	3,417	29.6
Adjustments	**(2,607)**	(2,429)	—
Consolidated revenues	**¥ 1,023,421**	¥ 988,303	3.6%

Operating Income by Business Segment

Years ended March 31	Millions of yen 2019	2018	Difference
Operating income:			
Specialty Steel Products	**¥ 22,512**	¥ 26,127	¥ (3,615)
Magnetic Materials and Applications	**8,766**	7,286	1,480
Functional Components and Equipment	**(2,463)**	607	(3,070)
Wires, Cables, and Related Products	**11,598**	11,183	415
Others	**945**	111	834
Adjustments	**1,084**	1,012	72
Consolidated operating income	**¥ 42,442**	¥ 46,326	¥ (3,884)
Operating income margin (%):			
Specialty Steel Products	**7.4%**	9.0%	(1.6)%
Magnetic Materials and Applications	**8.0**	6.9	1.2
Functional Components and Equipment	**—**	0.2	—
Wires, Cables, and Related Products	**4.8**	4.9	(0.0)
Consolidated operating income margin (%)	**4.1%**	4.7%	(0.5)%



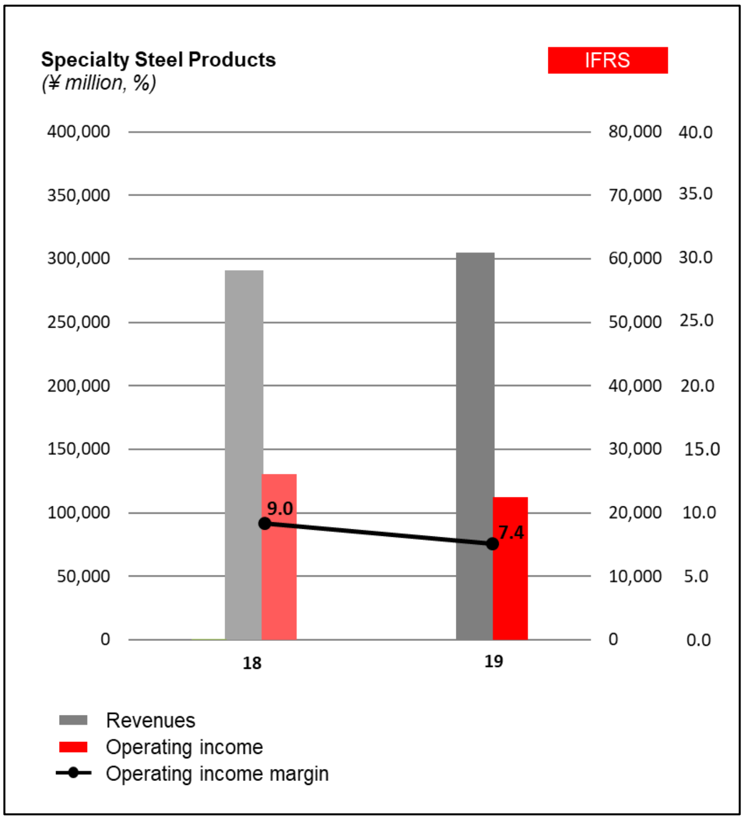


Specialty Steel Products

Revenues

Revenues across the entire Specialty Steel Products segment for the fiscal year ended March 31, 2019, were ¥304,562 million, an increase of ¥13,963 million, or 4.8% year-on-year. Adjusted operating income decreased by ¥4,702 million, or 16.9%, to ¥23,163 million year on year, due to a sharp decline in demand for the Company's mainstay specialty steel products from the third quarter ended December 31, 2018, onwards, and production adjustments in response to this decline, as well as an increase in costs from investments in projects such as the 10,000-ton class free forging press,* despite the positive effect of price correction. Operating income of the segment decreased by ¥3,615 million, or 13.8%, to ¥22,512 million year on year. This was mainly driven by a rise in raw material prices (sliding-scale raw material price system), despite a decline in demand that had been seen since the third quarter ended December 31, 2018.

*At the Company's Yasugi Works, full-scale operations started in May 2018. With the installation of this new 10,000-ton class free forging press, the Group aims to improve product functionality and productivity of hot work tool steel and strengthen the aircraft and energy-related materials businesses.



Specialty Steels: Sales of molds and tool steel increased year on year mainly due to a rise in raw material prices (sliding-scale raw material price system), despite inventory adjustments in Japan from the third quarter ended December 31, 2018, onwards, as well as a decrease in demand in international markets especially in China. Sales of industrial equipment materials exceeded those of the fiscal year ended March 31, 2018, on the back of an increase in sales of environment-conscious products related to automobiles. Overall sales of alloys for electronic products remained at the same level as the previous fiscal year, due to a slowdown in demand for organic EL panel-related and semiconductor package components from the third quarter ended December 31, 2018, onwards, despite firm sales of battery-related components throughout the current fiscal year. Sales of aircraft-related and energy-related materials increased year on year overall, due to an increase in sales of aircraft-related materials, compensating weak results in energy-related materials.

Rolls: Both domestic sales and exports of rolls were strong. Sales of injection molding machine parts increased throughout the fiscal year ended March 31, 2019, as demand remained at a high level until the end of the third quarter ended December 31, 2018, despite a slowdown in the fourth quarter (January through March 2019). As a result, overall sales of rolls increased year on year.

Soft Magnetic Materials and Applied Products: Overall sales of soft magnetic materials and applied products increased year on year, due to sales of amorphous metals being unchanged from the previous fiscal year and robust sales of applied products for automobiles on the back of increased demand.

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

	Billions of yen	
Years ended March 31	**2019**	2018
Capital expenditures	**¥ 37.5**	¥ 27.9
Depreciation and amortization	**15.6**	14.2
Research and development expenses	**5.5**	5.5

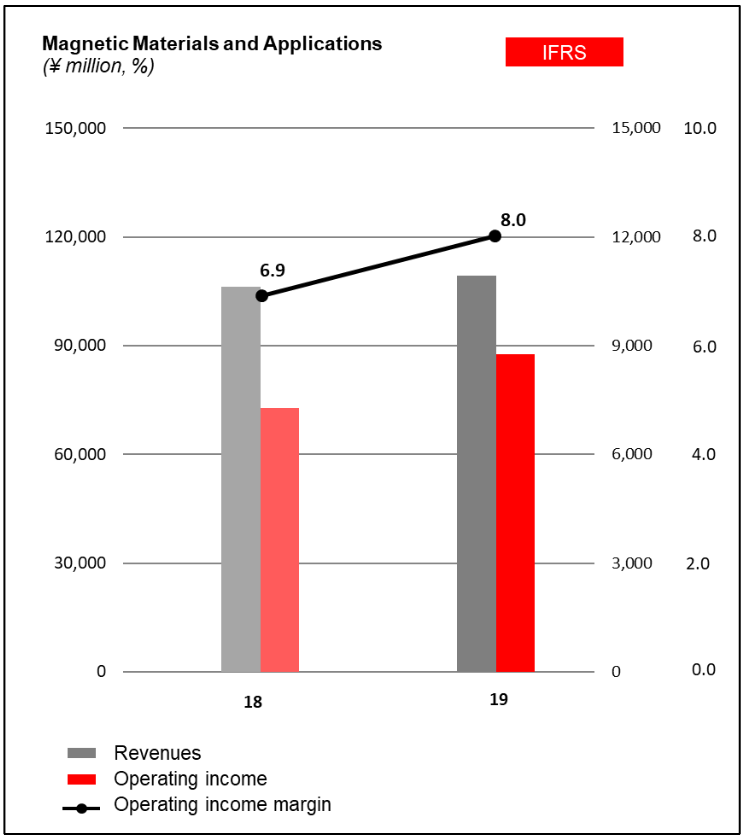
Magnetic Materials and Applications

Revenues

Revenues in the Magnetic Materials and Applications segment for the fiscal year ended March 31, 2019, were ¥109,351 million, an increase of ¥3,220 million, or 3.0% year-on-year. Adjusted operating income decreased by ¥6,313 million, or 65.8% year-on-year to ¥3,280 million, due to an increase in costs associated with rare-earth magnet and ferrite magnet investments, changes in raw material prices as well as a slump in rare-earth magnet demand mainly for industrial equipment-related components. Operating income increased by ¥1,480 million, or 20.3% year-on-year to ¥8,766 million as a result of recording a total of ¥5,757 million in gain on bargain purchase and gain on a step acquisition under other income, which was generated from making Santoku Corporation a consolidated subsidiary of the Company.

Rare-Earth Magnets: Sales of rare-earth magnets exceeded those of the previous fiscal year, as a result of making Santoku Corporation a consolidated subsidiary of the Company. However, on the actual demand front, sales for industrial equipment-related components fell significantly below those of the previous fiscal year, due to a slowdown in the electronics-related and semiconductor-related markets and a decline in demand for various manufacturing equipment and industrial machinery. Sales for automotive electronic components applications also decreased year on year, mainly reflecting a decline in new vehicle sales in China and Europe.

Ferrite Magnets: Sales of ferrite magnets for household appliance parts decreased. However, sales of ferrite magnets as a whole remained unchanged year on year, as sales for automotive electronic components for the fiscal year ended March 31, 2019, increased overall year on year, despite a fall in demand in the fourth quarter.



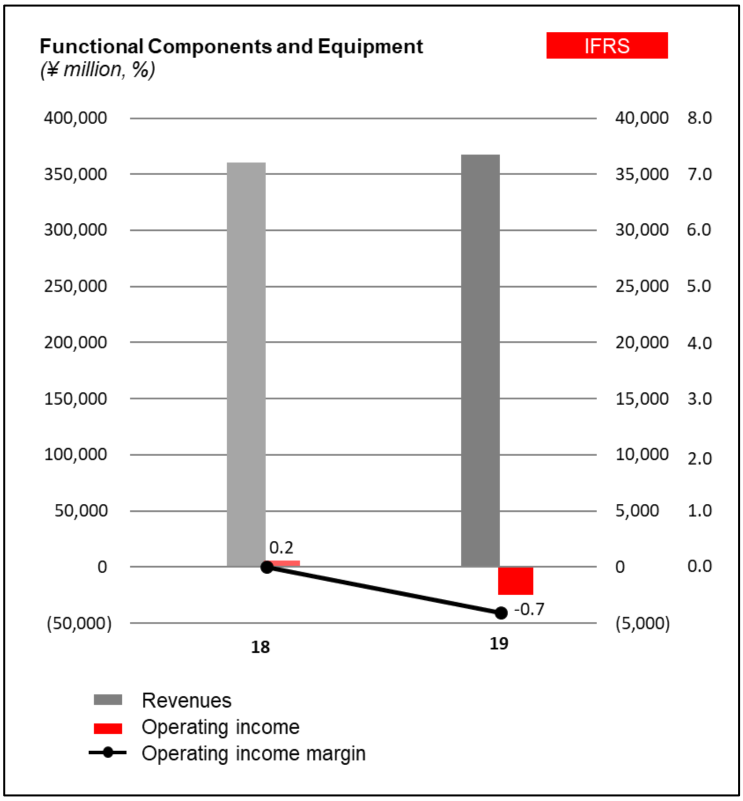
Capital Expenditures, Depreciation and Amortization, and R&D expenses

	Billions of yen	
Years ended March 31	**2019**	2018
Capital expenditures	**¥ 22.5**	¥ 20.6
Depreciation and amortization	**9.2**	7.0
Research and development expenses	**4.1**	3.4

Functional Components and Equipment

Revenues

Revenues in the Functional Components and Equipment segment for the fiscal year ended March 31, 2019, were ¥367,563 million, an increase of ¥7,510 million, or 2.1% year-on-year, due in part to a rise in raw material prices (sliding-scale raw material price system) as well as an increase in sales of casting components for automobiles. Adjusted operating income decreased by ¥1,310 million, or 11.1% year-on-year to ¥10,489 million, due to loss-making heat-resistant exhaust casting components and aluminum wheels, difficulties in securing personnel because of the tough employment environment faced by Waupaca Foundry, Inc. in the United States, and a decrease in sales of semiconductor manufacturing equipment. A total of ¥10,278 million was recorded as other expenses, due to the implementation of the structural reforms in the heat-resistant exhaust casting components and aluminum wheels businesses, which were identified as "businesses with issues." As a result, operating income decreased by ¥3,070 million year on year and an operating loss of ¥2,463 million was recorded.



Casting Components for Automobiles: Overall sales of casting components for automobiles increased year on year. This was due to an increase in demand for casting components manufactured by Waupaca Foundry, Inc. in the United States for commercial vehicles, farming machinery, and construction machinery in North America, and an increase in demand for automobiles in Asia.

Piping Components: Overall sales of pipe fittings in the fiscal year ended March 31, 2019, fell below those of the previous fiscal year. This was because, while in the United States, sales remained unchanged from the previous fiscal year, Japan experienced a decline in demand due to the price revision made at the end of the previous fiscal year. Sales of semiconductor manufacturing equipment decreased year on year due to delays in some capital investment projects. As a result, overall sales of piping components decreased year on year.

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

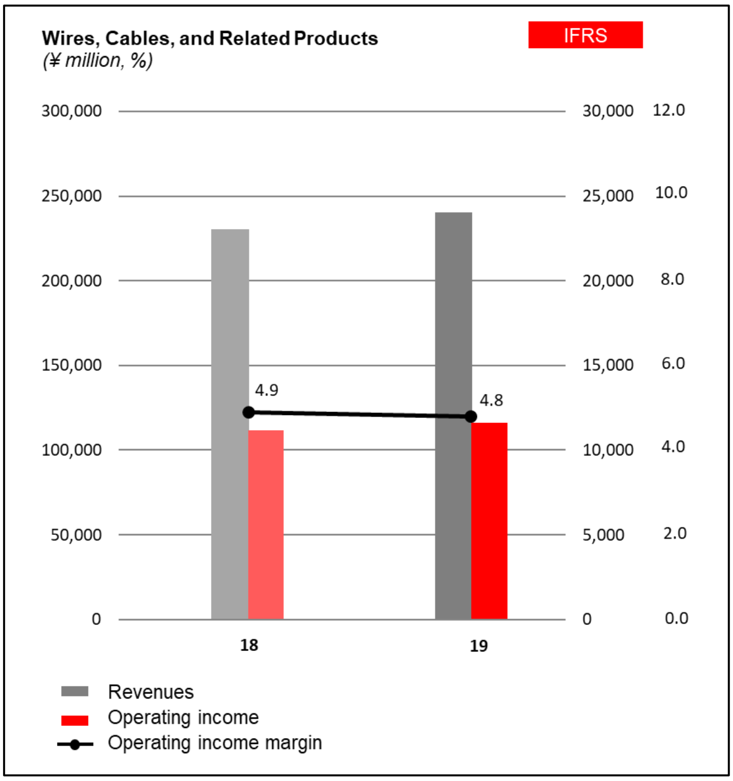
	Billions of yen	
Years ended March 31	**2019**	2018
Capital expenditures	**¥ 19.5**	¥ 24.7
Depreciation and amortization	**16.5**	16.7
Research and development expenses	**3.5**	3.5

Wires, Cables, and Related Products

Revenues

Revenues in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2019, were ¥240,123 million, an increase of ¥9,591 million, or 4.2% year-on-year. The increase was mainly driven by the expansion of the focused fields and a rise in raw material prices (sliding-scale raw material price system). Adjusted operating income decreased by ¥2,399 million, or 16.1% year-on-year to ¥12,548 million, led in part by increased fixed costs associated with capital expenditures, such as for the continuous casting and rolling line.* Operating income of the segment increased by ¥415 million, or 3.7% year-on-year to ¥11,598 million, mainly due to a decrease in other expenses, which were recorded in the previous fiscal year.

*The continuous casting and rolling line was completed in April 2018 at the Company's Ibaraki Works. As a result, the Company is able to offer enhanced core products, and the mass production structure for the new high-performance pure copper material "HiFC®" is in operation.



Electric Wires and Cables: Sales of wires and cables for rolling stock grew mainly in China, and sales of wires and cables for construction increased. Sales of magnet wires were also solid mainly for automobile applications. As a result, overall sales of electric wires and cables increased year on year.

High-Performance Components: Sales of automobile electronic components increased year on year, due to an increase in demand for various sensors, harnesses for electric parking brakes, and hybrid automobiles, despite a decline in demand for brake hoses. Sales of high performance components for medical use also increased year on year, supported by solid demand for both probe cables and tubes. As a result, sales of high performance components as a whole increased year on year.

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

	Billions of yen	
Years ended March 31	**2019**	2018
Capital expenditures	**¥ 12.8**	¥ 8.7
Depreciation and amortization	**7.1**	6.7
Research and development expenses	**5.3**	5.1

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, 2019, the Company issued unsecured corporate bonds of ¥40 billion in December 2018, and the funds raised were primarily used for capital expenditures and repayments of borrowings to strengthen the platform for further growth.

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 United States 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, 2019, the current ratio was 151%, a liquidity level that management considers adequate.

Rating Information

The Company recognizes that maintaining a high, stable credit rating is essential for its management goal of maintaining adequate liquidity and flexibility in its financing policies and reduction in financing costs. 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, 2019. R&I has consistently rated the Company as "A" or above since the fiscal year ended March 31, 2009.

Rating Information

R&I		
Rating	**2019**	2018
Long-term issue rating	**A+**	A+

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

Financial Position

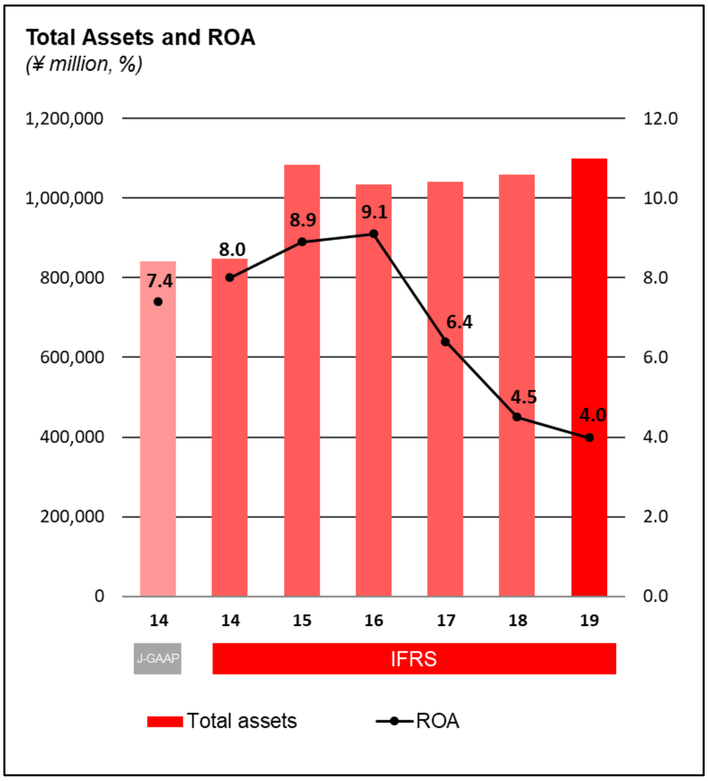
Total assets were ¥1,099,252 million, an increase of ¥40,420 million from March 31, 2018. Current assets were ¥480,331 million, a decrease of ¥3,701 million from March 31, 2018. This was mainly attributable to an increase in inventories of ¥24,603 million, and decreases in cash and cash equivalents and trade receivables of ¥13,814 million and ¥12,322 million, respectively. Non-current assets were ¥618,921 million, an increase of ¥44,121 million from March 31, 2018. This was mainly attributable to an increase in property, plant and equipment of ¥46,842 million.

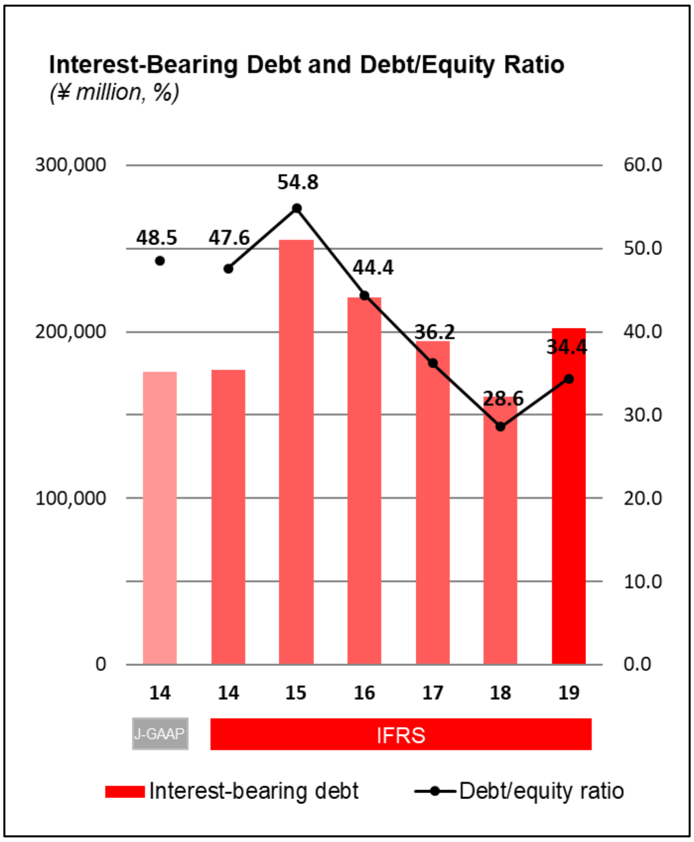
ROA was 4.0% in the fiscal year ended March 31, 2019, while 4.5% in the fiscal year ended March 31, 2018. The change in ROA is primarily due to a decrease in income before income taxes for the fiscal year ended March 31, 2019.

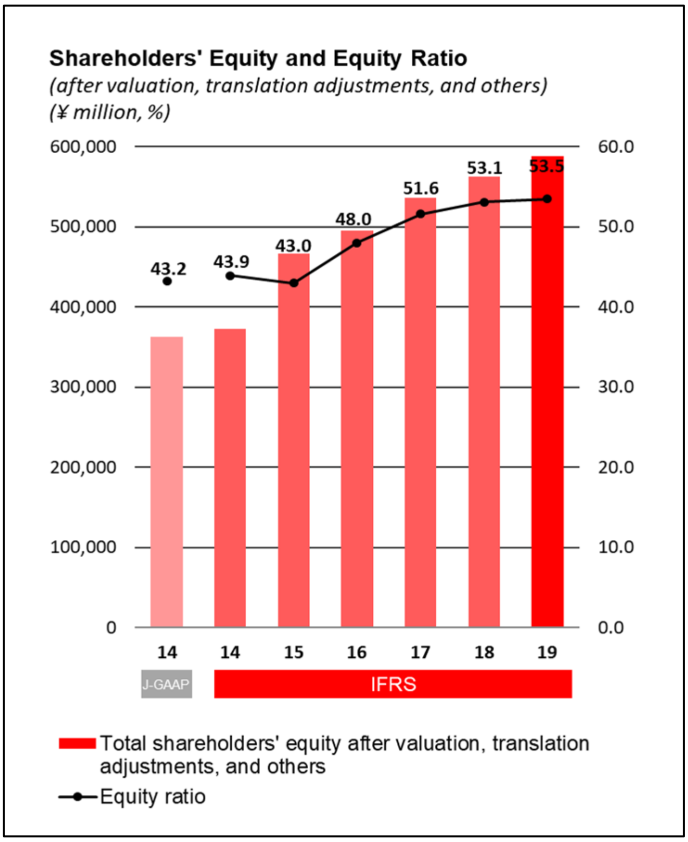
Total liabilities were ¥504,041 million, an increase of ¥15,401 million from March 31, 2018. This was mainly attributable to an increase in short-term debt of ¥21,641 million, increases in the current portion of long-term debt and long-term debt of ¥19,613 million in total, and a decrease in trade payables of ¥17,743 million. Total equity was ¥595,211 million, an increase of ¥25,019 million from March 31, 2018. This was mainly attributable to an increase in retained earnings of ¥18,706 million.

The equity ratio stood at 53.5%, 0.4 percentage points higher than that of the fiscal year ended March 31, 2018, due to an increase in retained earnings of ¥18,706 million from March 31, 2018. Return on invested capital was 4.1% for the fiscal year ended March 31, 2019, 1.7 percentage points lower than that of the fiscal year ended March 31, 2018.

For the year ending March 31, 2020, 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, 2019, were ¥41,098 million, a decrease of ¥13,814 million from the fiscal year ended March 31, 2018, as a result of net cash used in investing activities exceeding cash provided by operating activities and financing activities. The analysis of cash flows for each category as of March 31, 2019, is as follows:

Cash Flows from Operating Activities:

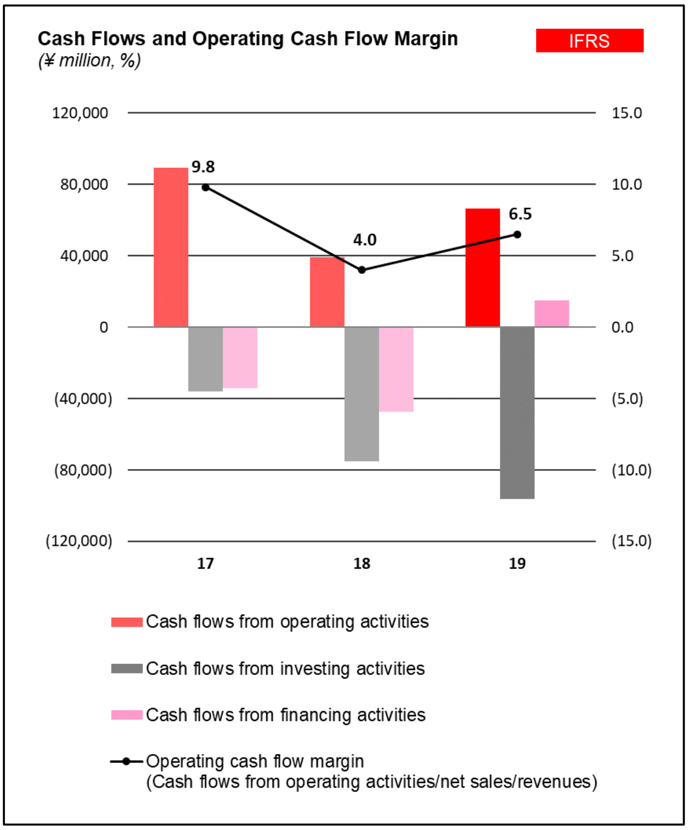
Net cash provided by operating activities was ¥66,582 million. This was mainly attributable to net income of ¥31,243 million, and depreciation and amortization of ¥50,901 million despite payment of ¥18,261 million associated with an increase in working capital, such as inventories.

Cash Flows from Investing Activities:

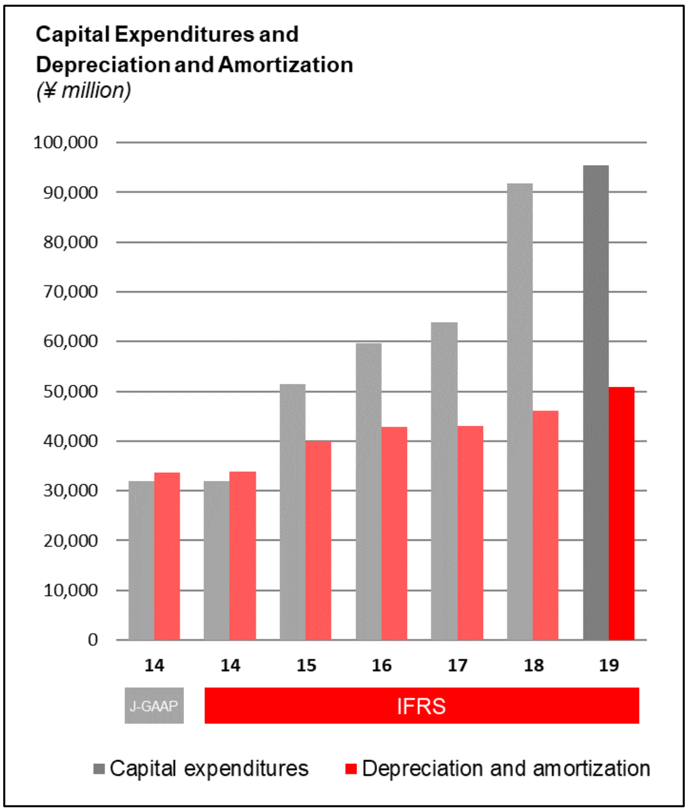
Net cash used in investing activities was ¥96,247 million, which was mainly attributable to payment of ¥98,414 million for the purchase of property, plant and equipment.

Cash Flows from Financing Activities:

Net cash provided by financing activities was ¥14,838 million. This was mainly attributable to net increase in short-term debt of ¥18,522 million, proceeds from long-term debt of ¥45,633 million, the repayment of long-term debts of ¥34,979 million, and the payment of dividends of ¥12,973 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, 2019, capital expenditures were ¥95,389 million, a 3.9% increase year-on-year, and amounts invested by business segment are as follows:

In the Specialty Steel Products segment, ¥37,504 million was invested to build production systems for alloys for electronic products and industrial equipment sectors in Japan. In the Magnetic Materials and Applications segment, ¥22,523 million was invested to build innovative production lines and additional production lines to accommodate an increase in production capacity for rare-earth magnets in Japan. In the Functional Components and Equipment segment, ¥19,551 million was invested to streamline production efficiency and upgrade production machinery, primarily overseas. In the Wires, Cables, and Related Products segment, ¥12,879 million was invested to increase production capacity for electric wires and cables, and electronic components in Japan and overseas

The Group is investing proactively in next-generation metal products, and the above capital investments include investments that incorporate an element of R&D. At the same time, the Company is taking steps to strengthen its production technologies through the use of IoT.

The ratio of capital expenditures (CAPEX) to operating cash flows was 1.43 times for the fiscal year ended March 31, 2019, and the above expenditures were covered by own funds and funds raised through issuance of corporate bonds.

For the fiscal year ended March 31, 2019, there were no significant disposals or sales of facilities.

For the fiscal year ending March 31, 2020, management plans to allocate ¥62,000 million (a 35.0% decrease 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, primarily in Japan. The Magnetic Materials and Applications / Power Electronics segment will enhance and streamline its magnet production capacities, primarily in Japan, while enhancing production capacity of power electronics materials. The Functional Components and Equipment segment will enhance production capacity and production efficiency mainly overseas. The Wires, Cables, and Related Products segment will enhance production capacity with respect to electric wires and cables, and electronic components, and production efficiency in Japan and overseas.

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, 2019, were ¥50,901 million, which increased by 10.3% year on year.

Depreciation and amortization for the fiscal year ended March 31, 2019, for the Specialty Steel Products; Magnetic Materials and Applications; Functional Components and Equipment; and Wires, Cables, and Related Products segments were ¥15,616 million, ¥9,296 million, ¥16,501 million, and ¥7,157 million, respectively.

The Group forecasts depreciation and amortization expenses for the year ending March 31, 2020, to be ¥60,000 million.

Capital Expenditures by Business Segment

	Millions of yen	
Years ended March 31	**2019**	2018
Specialty Steel Products	**¥ 37,504**	¥ 27,974
Magnetic Materials and Applications	**22,523**	20,619
Functional Components and Equipment	**19,551**	24,705
Wires, Cables, and Related Products	**12,879**	8,710
Others	**508**	207
Adjustments	**2,424**	9,571
Total	**¥ 95,389**	¥ 91,786
Operating cash flows	**¥ 66,582**	¥ 39,133
CAPEX to operating cash flow ratio (times)	**1.43**	2.35

Depreciation and Amortization by Business Segment

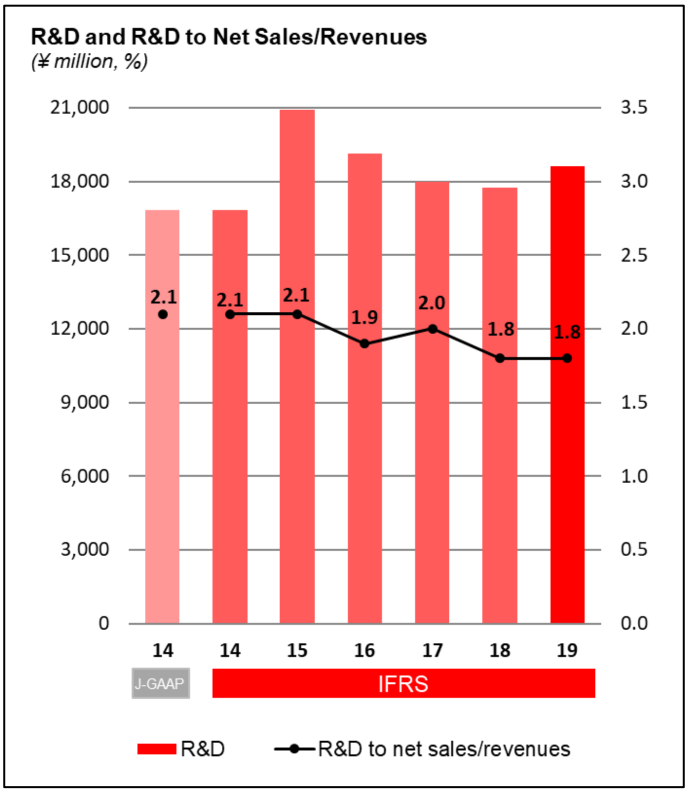
	Millions of yen	
Years ended March 31	**2019**	2018
Specialty Steel Products	**¥ 15,616**	¥ 14,275
Magnetic Materials and Applications	**9,296**	7,086
Functional Components and Equipment	**16,501**	16,739
Wires, Cables, and Related Products	**7,157**	6,715
Others	**325**	298
Adjustments	**2,006**	1,025
Total	**¥ 50,901**	¥ 46,138

Research and Development (R&D) Activities

For the fiscal year ended March 31, 2019, the Group invested ¥18,604 million in R&D, a 4.8% increase year-on-year. R&D to revenues was 1.8% in the fiscal year ended March 31, 2019.

Breaking down R&D expenses by segment, the Group allocated ¥5,501 million for the Specialty Steel Products segment, ¥4,193 million for the Magnetic Materials and Applications segment, ¥3,589 million for the Functional Components and Equipment segment, and ¥5,321 million for the Wires, Cables, and Related Products segment.

The Group forecasts R&D expenses for the fiscal year ending March 31, 2020, to be ¥18,500 million.



R&D by Business Segment

	Millions of yen	
Years ended March 31	**2019**	2018
Specialty Steel Products	**¥ 5,501**	¥ 5,558
Magnetic Materials and Applications	**4,193**	3,489
Functional Components and Equipment	**3,589**	3,563
Wires, Cables, and Related Products	**5,321**	5,139
Total	**¥ 18,604**	¥ 17,749
Consolidated revenues	**¥ 1,023,421**	¥ 988,303
R&D to revenues (%)	**1.8%**	1.8%

Outlook

Performance Outlook for the fiscal year ending March 31, 2020

While the Group expects the world economy to remain on a gradual recovery path, the future remains difficult to predict as there are a number of uncertainties stemming from political instability in many countries, including issues surrounding the United Kingdom's exit from the EU, a prolonged and escalating trade dispute between the United States and China, concerns about further economic slowdown in emerging countries, a consumption tax hike scheduled for October 2019 in Japan, and sudden fluctuations in exchange rates and raw material prices.

In this business environment, the Group aims to expand its "Only 1, No. 1" businesses and products for sustainable growth based on the fiscal 2021 medium-term management plan to position itself as a high-performance materials company that supports a sustainable society.

Management Strategies for the Future

Challenges

Since starting its business, the Group has contributed to society by delivering distinctive products in diverse industries such as automobile, industrial infrastructure, and electronics. In recent years, economic structures have changed dramatically on a global scale, and as society's needs diversify, new technologies, products, and services are being generated. In addition, as represented by Sustainable Development Goals (SDGs), there is an increasingly strong demand for each company, as a corporate citizen, to proactively work to help create a sustainable society. Moreover, in the materials industry, which is one of the Group's business areas, customer needs are becoming more sophisticated and diversified in step with changes in society, and new materials are being developed at a faster pace each year to meet these needs. Under these circumstances, recognizing that the Company's mission is "Being the best enterprise" as stated in its corporate creed, the Company has developed the Fiscal 2021 Medium-Term Management Plan, the final year of which is the fiscal year ending March 31, 2022, to work toward achieving this mission. Under the Fiscal 2021 Medium-Term Management Plan, with a vision of "Building People, Building Innovation, Building the Future," the Group will pursue its management strategy together with measures with the aim of becoming a high-performance materials company that supports a sustainable society. That is why the Group aims to foster innovation in materials by providing opportunities to balance growth with an affluent social life through its business operations to its human resources, who are the foundation of the Group. At the same time, the Group aims to foster innovation in materials, by collaborating with its customers to enhance and expand its "Only 1, No. 1" business and products, leveraging its strengths. By accumulating the results of these innovations, the Group will help create a sustainable society; that is, building the future of society as a whole.

The specific action plans of the Fiscal 2021 Medium-Term Management Plan are as follows:

(1) Concentrating resources on high-growth and high-revenue areas
The Group will work to develop products and expand businesses in response to market and technological trends such as electrifying and motorizing automobiles, to concentrate its management resources on high-growth, high-revenue areas. The Group will also promote the continuous renewal of its portfolio.

(2) Maximizing synergies through organizational reform
By shifting its company structure from the current four internal companies to two business divisions and by consolidating its resources and practicing speedy decision making, the Group will work to strengthen synergies between each of its businesses, centered on the markets and businesses the Group will focus on in the future. At the same time, the Group will bolster its cross-sectional functions, and strengthen both its strategic functions and governance by enhancing corporate divisions and energizing personnel exchanges between business divisions.

(3) Strengthening the customer-facing functions and co-creating with customers
The Group will respond to changing needs in market environments and of customers to achieve strong growth, by enhancing the customer-facing functions (sales department and R&D department) to more quickly bring to market its "Only 1, No. 1" businesses and products that are made by combining the Group's creative technologies through co-creation with the customers.

(4) Making full use of large-scale capital investment
The Group will make full use of the large-scale equipment investment undertaken in its previous Medium-Term Management Plan, and will reap early effects. At the same time, the Group will implement selective equipment investment focusing on high-growth, high-revenue areas.

(5) Decisively executing structural reform and measures to strengthen the management base
For businesses and products with low profitability that have little potential for improvement, the Group will encourage the departments responsible for their business execution to shrink or withdraw from them, with utmost efforts promote consolidation and effective utilization of management resources. In addition, the Group will introduce management with Return on Invested Capital (ROIC) as a new indicator and seek to reduce invested capital, such as shortening the Cash Conversion Cycle (CCC) or working capital days, in order to improve cash flow and asset efficiency.

Meanwhile, the Group will create an innovative and challenging corporate culture by emphasizing diversity management and work-style reforms and maximizing their effectiveness through such measures as the hiring and fostering of personnel suitable for a global business environment and promoting participation by woman in active career-track roles.

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 and an organizational structure that is able to quickly identify and respond to changes in market environments 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. In addition, given the rise in raw material prices, there is a possibility that customer demand will shift from current products to other cheap alternative products. 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, and exporting its products in response to maturing Japanese markets and the offshore shifts of customers.

When expanding its operations into new overseas markets, 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, including custom duties, import regulations, and protectionism. 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, or products that do not satisfy agreed-upon customer specifications.

However, in case defective products or products that do not satisfy agreed-upon customer specifications 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, they could force the Group to halt its operations. Even if such disasters do not have direct impacts on its facilities, there is a possibility that logistics or supply chain channels, or communication networks, could be affected, triggering chaos. 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, 2019. Hitachi, Ltd. has four listed subsidiaries, including the Company, and many other affiliates under its control, engaging in a broad range of business activities from product manufacturing to sales and services in the Mobility, Smart Life, Industry, Energy and IT sectors. As of the issuance date of the Securities Report (available only in Japanese), one of nine directors of the Company concurrently serves 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.

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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, 2019	As of March 31, 2018	As of March 31, 2019
Assets				
Current assets				
Cash and cash equivalents		¥ 41,098	¥ 54,912	$ 370,286
Trade receivables	6	195,306	207,628	1,759,672
Inventories	7	214,805	190,202	1,935,355
Other current assets	23	29,122	31,290	262,384
Total current assets		480,331	484,032	4,327,696
Non-current assets				
Investments accounted for using the equity method	8	28,563	27,863	257,348
Investments in securities and other financial assets	23, 24	19,978	21,385	179,998
Property, plant and equipment	9	402,160	355,318	3,623,389
Goodwill and intangible assets	10	143,558	141,896	1,293,432
Deferred tax assets	11	9,652	13,280	86,963
Other non-current assets		15,010	15,058	135,237
Total non-current assets		618,921	574,800	5,576,367
Total assets		¥ 1,099,252	¥ 1,058,832	$ 9,904,063
Liabilities				
Current liabilities				
Short-term debt	23	¥ 48,844	¥ 27,203	$ 440,076
Current portion of long-term debt	23	34,268	27,368	308,749
Other financial liabilities	23	37,730	41,060	339,941
Trade payables	12, 23	155,251	172,994	1,398,784
Accrued expenses		38,018	40,313	342,535
Contract liabilities		534	–	4,811
Advances received		–	869	–
Other current liabilities	13	2,739	7,153	24,678
Total current liabilities		317,384	316,960	2,859,573
Non-current liabilities				
Long-term debt	23	118,986	106,273	1,072,043
Other financial liabilities	23	923	956	8,316
Retirement and severance benefits	14	58,124	57,807	523,687
Deferred tax liabilities	11	4,964	3,305	44,725
Other non-current liabilities	13	3,660	3,339	32,976
Total non-current liabilities		186,657	171,680	1,681,746
Total liabilities		504,041	488,640	4,541,319
Equity				
Equity attributable to shareholders of the parent company				
Common stock	15	26,284	26,284	236,814
Capital surplus	15	115,045	113,518	1,036,535
Retained earnings	15, 17	425,886	407,180	3,837,157
Accumulated other comprehensive income	16	21,925	16,896	197,540
Treasury stock, at cost	15	(1,161)	(1,158)	(10,460)
Total equity attributable to shareholders of the parent company		587,979	562,720	5,297,585
Non-controlling interests		7,232	7,472	65,159
Total equity		595,211	570,192	5,362,744
Total liabilities and equity		¥ 1,099,252	¥ 1,058,832	$ 9,904,063

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, 2019	For the year ended March 31, 2018	For the year ended March 31, 2019
Revenues	4, 18	¥ 1,023,421	¥ 988,303	$ 9,220,840
Cost of sales		(851,029)	(803,607)	(7,667,619)
Gross profit		172,392	184,696	1,553,221
Selling, general, and administrative expenses		(120,965)	(119,566)	(1,089,873)
Other income	19	10,667	5,401	96,108
Other expenses	19	(19,652)	(24,205)	(177,061)
Operating income		42,442	46,326	382,395
Interest income		514	449	4,631
Other financial income	20	846	988	7,622
Interest charges		(2,818)	(2,334)	(25,390)
Other financial expenses	20	(8)	(1,150)	(72)
Share of profits of investments accounted for using the equity method	8	2,063	2,706	18,587
Income before income taxes		43,039	46,985	387,774
Income taxes	11	(11,796)	(4,910)	(106,280)
Net income		31,243	42,075	281,494
Net income attributable to:				
Shareholders of the parent company		31,370	42,210	282,638
Non-controlling interests		(127)	(135)	(1,144)
Net income		¥ 31,243	¥ 42,075	$ 281,494

	Note	Yen		U.S. dollars
		For the year ended March 31, 2019	For the year ended March 31, 2018	For the year ended March 31, 2019
Earnings per share attributable to shareholders of the parent company				
Basic	21	¥ 73.37	¥ 98.72	$ 0.66
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, 2019	For the year ended March 31, 2018	For the year ended March 31, 2019
Net income		¥ 31,243	¥ 42,075	$ 281,494
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		(363)	663	(3,271)
Remeasurements of defined benefit plans		1,013	2,094	9,127
Share of other comprehensive income of investments accounted for using the equity method	8	(1,127)	474	(10,154)
Total items not to be reclassified into net income		(477)	3,231	(4,298)
Items that can be reclassified into net income				
Foreign currency translation adjustments		5,800	(6,132)	52,257
Net change in fair value of cash flow hedges		(49)	433	(441)
Share of other comprehensive income of investments accounted for using the equity method	8	(95)	46	(856)
Total items that can be reclassified into net income		5,656	(5,653)	50,960
Total other comprehensive income	16	5,179	(2,422)	46,662
Comprehensive income		¥ 36,422	¥ 39,653	$ 328,156
Comprehensive income attributable to:				
Shareholders of the parent company		¥ 36,562	¥ 39,569	$ 329,417
Non-controlling interests		(140)	84	(1,261)
Comprehensive income		¥ 36,422	¥ 39,653	$ 328,156

See accompanying notes to the consolidated financial statements.

3) Consolidated Statement of Changes in Equity

	Note	Millions of yen							
		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 April 1, 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	17	–	–	(11,117)	–	–	(11,117)	–	(11,117)
Dividends to non-controlling interests		–	–	–	–	–	–	(177)	(177)
Acquisition of treasury stock	15	–	–	–	–	(7)	(7)	–	(7)
Sales of treasury stock	15	–	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
Changes in equity									
Net income		–	–	31,370	–	–	31,370	(127)	31,243
Other comprehensive income		–	–	–	5,192	–	5,192	(13)	5,179
Dividends to shareholders of the parent company	17	–	–	(12,827)	–	–	(12,827)	–	(12,827)
Dividends to non-controlling interests		–	–	–	–	–	–	(146)	(146)
Acquisition of treasury stock	15	–	–	–	–	(3)	(3)	–	(3)
Sales of treasury stock	15	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	1,527	–	–	–	1,527	46	1,573
Transfer to retained earnings		–	–	163	(163)	–	–	–	–
Total changes in equity		–	1,527	18,706	5,029	(3)	25,259	(240)	25,019
Balance at March 31, 2019		¥ 26,284	¥ 115,045	¥ 425,886	¥ 21,925	¥ (1,161)	¥ 587,979	¥ 7,232	¥ 595,211

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, 2018		$ 236,814	$ 1,022,777	$ 3,668,619	$ 152,230	$ (10,433)	$ 5,070,006	$ 67,321	$ 5,137,328
Changes in equity									
Net income		–	–	282,638	–	–	282,638	(1,144)	281,494
Other comprehensive income		–	–	–	46,779	–	46,779	(117)	46,662
Dividends to shareholders of the parent company	17	–	–	(115,569)	–	–	(115,569)	–	(115,569)
Dividends to non-controlling interests		–	–	–	–	–	–	(1,315)	(1,315)
Acquisition of treasury stock	15	–	–	–	–	(27)	(27)	–	(27)
Sales of treasury stock	15	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	13,758	–	–	–	13,758	414	14,172
Transfer to retained earnings		–	–	1,469	(1,469)	–	–	–	–
Total changes in equity		–	13,758	168,538	45,310	(27)	227,579	(2,162)	225,417
Balance at March 31, 2019		$ 236,814	$ 1,036,535	$ 3,837,157	$ 197,540	$ (10,460)	$ 5,297,585	$ 65,159	$ 5,362,744

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, 2019	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from operating activities:				
Net income		¥ 31,243	¥ 42,075	$ 281,494
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		50,901	46,138	458,609
Impairment losses		7,394	10,611	66,619
Share of profits of investments accounted for using the equity method		(2,063)	(2,706)	(18,587)
Financial expenses		1,466	2,047	13,208
Losses on sale of property, plant and equipment		3,721	2,340	33,526
Structural reform expenses		3,306	799	29,786
Net gain on business reorganization and others		(5,653)	(280)	(50,933)
Income taxes		11,796	4,910	106,280
Decrease (increase) in trade receivables		18,294	(33,542)	164,826
Increase in inventories		(20,378)	(37,829)	(183,602)
Decrease (increase) in accounts receivable - other		1,482	(8,096)	13,353
(Decrease) increase in trade payables		(16,177)	23,028	(145,752)
(Decrease) increase in accrued expenses		(2,800)	3,181	(25,227)
Increase in retirement and severance benefits		302	697	2,721
Other		(4,264)	(2,975)	(38,418)
Subtotal		78,570	50,398	707,902
Interest and dividends received		818	1,672	7,370
Interest paid		(2,712)	(2,583)	(24,435)
Payments for structural reforms		(66)	(628)	(595)
Income taxes paid		(10,028)	(9,726)	(90,350)
Net cash provided by operating activities		66,582	39,133	599,892
Cash flows from investing activities:				
Purchase of property, plant and equipment		(98,414)	(76,265)	(886,692)
Purchase of intangible assets		(1,476)	(1,262)	(13,298)
Proceeds from sales of property, plant and equipment		650	2,073	5,856
Proceeds from (purchase of) investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)		260	(105)	2,343
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)		955	918	8,604
Payments for transfer of business		–	(86)	–
Other		1,778	(353)	16,019
Net cash used in investing activities		(96,247)	(75,080)	(867,168)

(Continued)

	Note	Millions of yen		Thousands of U.S. dollars
		For the year ended March 31, 2019	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from financing activities:				
Net increase in short-term debt	22	18,522	2,335	166,880
Proceeds from long-term debt	22	45,633	3,549	411,145
Repayment of long-term debt	22	(34,979)	(35,239)	(315,155)
Purchase of shares of consolidated subsidiaries from non-controlling interests		(1,362)	(6,906)	(12,271)
Dividends paid to shareholders	17	(12,827)	(11,117)	(115,569)
Dividends paid to non-controlling interests		(146)	(177)	(1,315)
Acquisition of common stock for treasury		(3)	(7)	(27)
Proceeds from sales of treasury stock		0	0	0
Net cash provided by (used in) financing activities		14,838	(47,562)	133,688
Effect of exchange rate changes on cash and cash equivalents		1,013	(990)	9,127
Net decrease in cash and cash equivalents		(13,814)	(84,499)	(124,462)
Cash and cash equivalents at the beginning of the year		54,912	139,411	494,747
Cash and cash equivalents at the end of the year		¥ 41,098	¥ 54,912	$ 370,286

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.

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 Koji Sato, Representative Executive Officer, President and Chief Executive Officer, on June 25, 2019.

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, 2019, is included in this annual report solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥110.99 = $1, the approximate exchange rate as of March 31, 2019.

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 23. "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 14. "Employee Benefits"
- Note 3. (12) "Provisions," Note 3. (13) "Contingencies," Note. 13 "Provisions," and Note 27. "Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)"
- Note 3. (15) "Income Taxes" and Note 11. "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

(a) Non-derivative financial assets

The Group initially recognizes trade and other receivables on the actual transaction dates. 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 all the risks and rewards of ownership of the financial assets are substantially transferred. For transactions under which all the risks and rewards of ownership of the financial assets are not substantially retained nor transferred, the Group derecognizes financial assets when it does not retain control of the financial asset.

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

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

Financial assets are classified as 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 determined using the effective interest method. Interest income from financial assets measured at amortized cost is included in interest income in the consolidated statement of income.

<u>FVTOCI financial assets</u>

The Group holds certain equity instruments to expand its revenue base by primarily maintaining and strengthening business relations with investees and classifies these equity instruments as FVTOCI financial assets. At initial recognition, FVTOCI financial assets are measured at fair value and subsequently measured at fair value at the date of fiscal year-end. Changes in fair value are recognized in other comprehensive income, and the cumulative amount of the changes in fair value is recognized in accumulated other comprehensive income. Dividends from equity instruments designated as FVTOCI financial assets are recognized in profit or loss unless they are obviously a return of investment.

FVTPL financial assets

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

Impairment of financial assets

The Group assesses an allowance for expected credit losses on trade and other receivables at least on a quarterly basis, regardless of whether the credit risk on those receivables has increased significantly since initial recognition.

The Group measures an allowance for doubtful accounts for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures an allowance for doubtful accounts for that financial asset at an amount equal to 12-month expected credit losses. The Group, however, measures an allowance for doubtful accounts for trade receivables at an amount equal to the lifetime expected credit losses without exceptions.

The Group determines whether the credit risk on financial assets has increased significantly based on changes in the risk of default occurring. The Group defines a default event by the debtor as a situation in which a significant issue arises on the debtor's payment of contractual cash flows, causing the Group to have no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. In assessing the changes in the risk of default occurring, the Group mainly considers external credit ratings and past due information.

Expected credit losses are measured at the present value of differences between all contractual cash flows that are due to the Group and all future cash flows that the Group is expected to receive from the financial assets, which is weighted by the probability of a credit loss event occurring. When one or more events, such as 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, have occurred, the Group individually assesses the financial assets as credit-impaired and estimates expected credit losses based on primarily historical default events and amounts recoverable in future periods. If the financial assets are not credit-impaired, the Group estimates the expected credit losses using allowance rates on a collective basis based primarily on historical default events, adjusted by considering present and future economic conditions as necessary.

The Group recognizes an allowance for doubtful accounts for expected credit losses on trade and other receivables, and does not directly reduce the carrying amounts of those receivables. Any changes in credit losses are recognized as impairment losses in profit or loss, which are included in selling, general, and administrative expenses in the consolidated statement of income. After all means of collection have been exhausted and the recoverability of the financial asset is considered remote, the Group determines that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof and directly writes off such asset.

(b) Non-derivative financial liabilities

The Group initially recognizes debt instruments 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, trade payables, and other financial liabilities. They are initially recognized at fair value (less direct transaction costs). Bonds and debts are subsequently measured at amortized cost using the effective interest method, and interest income is recognized in interest charges in the consolidated statement of income.

(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. These derivatives are all recorded at fair value regardless of the purposes or intentions of holding the derivatives.

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 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 recognized in other comprehensive income (loss) if the hedge is considered effective. This treatment is continued until the unrecognized firm commitment of the designated hedged item or changes in hedged expected future cash flows are recognized in profit or loss, at which point changes in fair value of the derivative instruments are also recognized in profit or loss. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, changes in fair value of derivatives recognized as other comprehensive income (loss) are directly included in the cost or other carrying amount of the asset or liability when the non-financial asset or non-financial liability is recognized.

The Group documents risk management objectives and strategies for undertaking various hedge transactions as stipulated in IFRS 9 .*Financial Instruments* (amended in July 2014). In addition, the Group assesses whether the derivative used in hedging activities is 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.

(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 13. "Provisions."

(13) Contingencies

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group discloses contingent liabilities in Note 27. "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 by applying the following five steps:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group engages in a wide-range of transactions, and some are tailored based on customers' requests where it offers two or more products or services to customers under the transactions. When the Group enters into two or more contracts with a customer to provide products or services, related contracts are combined taking into account the relationships between considerations in the contracts or the timing of the contracts entered into with the customers. The transaction price is allocated to performance obligations on a relative standalone selling price basis, and revenue is recognized accordingly.

The relative standalone selling price is estimated by taking many factors into account, including market conditions, market prices of competitive products, costs of products, and information about the customer.

The transaction price is determined at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. Variable consideration, such as discounts and rebates, are included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The promised consideration does not contain a significant financing component.

(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) Changes in Accounting Policies

1) Adoption of IFRS 9 *Financial Instruments* (amended in July 2014)

The Group had previously adopted IFRS 9 *Financial Instruments* (issued in November 2009, and amended in October 2010 and December 2011), but from the beginning of the fiscal year ended March 31, 2019, the Group has adopted IFRS 9 *Financial Instruments* (amended in July 2014). IFRS 9 *Financial Instruments* (amended July 2014) includes requirements related to hedge accounting, amendments to the classification and measurement requirements for financial instruments, and introduces an impairment accounting model for expected credit losses on financial assets.

As a transitional measure upon the adoption of IFRS 9 (amended in July 2014), the Group applies this standard with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the fiscal year ended March 31, 2019. There is no material impact on the Group's financial positon and operating results from the application of this standard.

2) Adoption of IFRS 15 *Revenue from Contracts with Customers*

From the beginning of the fiscal year ended March 31, 2019, the Group has adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 provides the comprehensive model and a robust framework for addressing revenue recognition issues. Under IFRS 15, revenue is measured based on changes in the asset or liability arising from a contract with a customer and recognized once control of goods or services is transferred to the customer.

As a transitional measure upon the adoption of IFRS 15, the Group applies this standard retrospectively with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the full-year ended March 31, 2019. There is no material impact on the Group's financial positon and operating results from the application of this standard.

Payments received from customers that were previously presented as advances received are now presented as contract liabilities in the fiscal year ended March 31, 2019.

(20) Standards Issued but Not Yet Effective

Of the 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, 2019, IFRS 16 *Leases* was not adopted by the Group for the fiscal year ended March 31, 2019.

IFRS 16 sets out the principles for recognition, measurement, presentation, and disclosure of leases. A lessee is required to account for all leases in its consolidated statement of financial position, applying a single accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, and the Group will apply IFRS 16 from April 1, 2019. The Group applies transition requirements in

IFRS 16 that retrospectively recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group's lease transactions are mainly leases of real estate. The impacts of applying IFRS 16 on the statement of financial position at the beginning of the year ending March 31, 2020, are as follows: an increase in assets by approximately ¥16,900 million (US $152,266 thousand) primarily due to recognition of right-of-use assets; an increase in liabilities by approximately ¥17,400 million (US $156,771 thousand) primarily due to recognition of lease liabilities; and a decrease in equity by approximately ¥500 million (US $4,505 thousand) due to an adjustment of the opening balance of retained earnings. Accordingly, the potential impacts of applying IFRS 16 on the consolidated statement of income is expected to be insignificant. With respect to impacts on the consolidated statement of cash flows, lease payments under operating leases were previously included in cash flows from operating activities. While under IFRS 16, adjustments related to amortization of the right-of-use assets are primarily included in cash flows from operating activities, and lease payments for lease liabilities are included in cash flows from financing activities. As a result, following the adoption of IFRS 16, it is predicted that cash flows from operating activities will increase, while cash flows from financing activities will decrease.

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 Wires, Cables, and Related Products segment comprises the Electric Wires and Cables Business.

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, 2019 and 2018:

For the year ended March 31, 2019

	Millions of yen								
	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	¥ 304,366	¥ 109,351	¥ 367,563	¥ 239,602	¥ 1,020,882	¥ 2,539	¥ 1,023,421	¥ –	¥ 1,023,421
Intersegment transactions	196	–	–	521	717	1,890	2,607	(2,607)	–
Total revenues	304,562	109,351	367,563	240,123	1,021,599	4,429	1,026,028	(2,607)	1,023,421
Segment profit (loss)	22,512	8,766	(2,463)	11,598	40,413	945	41,358	1,084	42,442
Financial income	–	–	–	–	–	–	–	–	1,360
Financial expenses	–	–	–	–	–	–	–	–	(2,826)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	2,063
Income before income taxes	–	–	–	–	–	–	–	–	43,039
Segment assets	420,105	159,193	339,251	258,570	1,177,119	1,396	1,178,515	(79,263)	1,099,252
Other items:									
Depreciation and amortization	15,616	9,296	16,501	7,157	48,570	325	48,895	2,006	50,901
Capital expenditure	37,504	22,523	19,551	12,879	92,457	508	92,965	2,424	95,389
Impairment losses	–	–	7,378	16	7,394	–	7,394	–	7,394

Notes: 1. Segment profit (loss) 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.

For the year ended March 31, 2018

	Millions of yen								
	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	¥ 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, 2019

	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	$ 2,742,283	$ 985,233	$ 3,311,677	$ 2,158,771	$ 9,197,964	$ 22,876	$ 9,220,840	$ –	$ 9,220,840
Intersegment transactions	1,766	–	–	4,694	6,460	17,029	23,489	(23,489)	–
Total revenues	2,744,049	985,233	3,311,677	2,163,465	9,204,424	39,904	9,244,328	(23,489)	9,220,840
Segment profit (loss)	202,829	78,980	(22,191)	104,496	364,114	8,514	372,628	9,767	382,395
Financial income	–	–	–	–	–	–	–	–	12,253
Financial expenses	–	–	–	–	–	–	–	–	(25,462)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	18,587
Income before income taxes	–	–	–	–	–	–	–	–	387,774
Segment assets	3,785,071	1,434,300	3,056,591	2,329,669	10,605,631	12,578	10,618,209	(714,145)	9,904,063
Other items:									
Depreciation and amortization	140,697	83,755	148,671	64,483	437,607	2,928	440,535	18,074	458,609
Capital expenditure	337,904	202,928	176,151	116,037	833,021	4,577	837,598	21,840	859,438
Impairment losses	–	–	66,474	144	66,619	–	66,619	–	66,619

Other Related Information

For the year ended March 31, 2019

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
¥ 448,984	¥ 310,880	¥ 200,703	¥ 50,406	¥ 12,448	¥ 1,023,421

Thousands of U.S. dollars					
Japan	North America	Asia	Europe	Other areas	Total
$ 4,045,265	$ 2,800,973	$ 1,808,298	$ 454,149	$ 112,154	$ 9,220,840

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 ¥277,942 million (US $2,504,208 thousand) and ¥76,206 million (US $686,602 thousand), respectively.

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

Millions of yen					
Japan	North America	Asia	Europe	Other areas	Total
¥ 357,898	¥ 176,293	¥ 50,825	¥ 220	¥ 1,989	¥ 587,225

Thousands of U.S. dollars					
Japan	North America	Asia	Europe	Other areas	Total
$ 3,224,597	$ 1,588,368	$ 457,924	$ 1,982	$ 17,921	$ 5,290,792

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 ¥176,293 million (US $1,588,368 thousand).

3. Significant customer information
   There was no concentration of revenues from a specific customer for the year ended March 31, 2019.

For the year ended March 31, 2018

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
¥ 431,549	¥ 294,836	¥ 198,076	¥ 51,447	¥ 12,395	¥ 988,303

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 and ¥75,323 million, 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

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.

3. Significant customer information

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

Note 5. Business Combinations

The major business combination for the year ended March 31, 2019, is as follows:

Making Santoku Corporation a subsidiary through acquisition of shares

1. Purpose of acquisition of shares
   With NEOMAX® neodymium magnets, the strongest magnet of its kind available in the world, as its mainstay product, Hitachi Metals' Magnetic Materials Company has been supplying a wide range of high-performance magnets as key materials for downsizing, weight-saving, optimization, energy-saving, and improvement of environmental performance in various fields including automobiles, IT, home appliances, industrial machinery, medicine, the environment, and energy.

   At the same time, Santoku Corporation possesses a high level of expertise that includes microstructure control technology for alloys, as evidenced by the fact that Santoku Corporation was the first in the world to succeed in the molten salt electrolysis of rare earths as well as the mass production of rare earth rapid quenching alloys. Santoku Corporation also carries out integrated production from raw materials to high purity compounds and assorted alloys. As for the manufacturing of neodymium magnet alloys that make up the raw materials of neodymium magnets, specifically, Santoku Corporation has a patent related to strip casting process manufacturing technologies and has been recognized as the world's leading comprehensive rare earth manufacturer.

   As significant growth is expected in the global market for xEVs[Note], the Company has been endeavoring to reinforce the competitiveness of high-performance magnets by boosting the global production system and optimizing material flows that cover from raw materials to end-products. While the Company has been investing aggressively in the manufacturing of neodymium magnet alloys and the development of new recycling technologies, it has decided to acquire Santoku Corporation as a subsidiary in order to further accelerate the progress of the activities above.
   Note: xEVs is the general term for electric vehicles (EVs), hybrid electric vehicles (HEVs), and plug-in hybrid electric vehicles (PHEVs).

   The Company acquired shares of Santoku Corporation, equivalent to 75.64% of the voting rights, as of April 2, 2018, and Santoku Corporation became a consolidated subsidiary of the Company. As of May 25, 2018, the Company made Santoku Corporation a wholly owned subsidiary through the consolidation of shares.

   Through the acquisition of Santoku Corporation, the Company will aim to develop a stable production system and achieve sustainable growth in the global market by establishing an integrated production system that covers from the manufacturing of alloys and magnets for the neodymium magnets business to recycling.

2. Name of the acquired company and its business
   (1) Name: Santoku Corporation
   (2) Business: Manufacturing and sales of rare earth compounds, rare earth metals, magnet materials, and battery materials

3. Date of acquisition of shares
   April 2, 2018

4. Ratio of voting rights acquired
   75.64%

5. Consideration for the acquisition of shares and fair values of assets acquired and liabilities assumed
The following table summarizes consideration for the acquisition of Santoku Corporation and recognized amounts of assets acquired and liabilities assumed as of the date of acquisition.

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents	¥ 2,883	$ 25,975
Trade receivables	12,025	108,343
Inventories	4,119	37,111
Other current assets	715	6,442
Non-current assets (except for intangible assets)	7,849	70,718
Intangible assets	215	1,937
Other non-current assets	1,201	10,821
Total assets	¥ 29,007	$ 261,348
Current liabilities	13,533	121,930
Non-current liabilities	4,115	37,075
Total liabilities	¥ 17,648	$ 159,005
Consideration paid (cash)	2,552	22,993
Fair value of pre-existing interests in the acquiree	162	1,460
Total consideration for the acquisition of shares	¥ 2,714	$ 24,453
Non-controlling interests	2,935	26,444
Gain on bargain purchase	5,710	51,446

Non-controlling interests are measured at an amount equivalent to non-controlling shareholders' ownership interests in the acquired company's identifiable net assets at fair value.

The gain of ¥5,710 million (US $51,446 thousand) on bargain purchase of the shares of Santoku Corporation arose in this acquisition because fair value of the net assets acquired exceeded the consideration for the acquisition of shares. The gain on bargain purchase is recorded as other income in the consolidated statement of income.

The allocation of consideration transferred in the acquisition was accounted for at provisional amounts as of June 30, 2018. During the six-month period ended September 30, 2018, the amounts were finalized and there were no changes to the provisional amounts recognized.

6. Acquisition-related costs
The Company recorded ¥31 million (US $279 thousand) of acquisition-related costs of the business combination as other expenses in the consolidated statement of income.

7. Gain on a step acquisition
As a result of remeasurement of equity interests in Santoku Corporation held by the Company before the acquisition date at acquisition-date fair value, they were determined as ¥162 million (US $1,460 thousand), and thus, the Company recognized a gain on a step acquisition of ¥47 million (US $423 thousand) as other income in the consolidated statement of income.

8. Revenue and net income of the acquired company
Disclosure regarding revenue and net income of the acquired company for the period between the acquisition date and March 31, 2019, is omitted because the amounts do not have material effects on the consolidated financial statements.

Note 6. Trade Receivables

Trade receivables as of March 31, 2019 and 2018, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2018	March 31, 2019
Accounts receivable	¥ 168,398	¥ 180,252	$ 1,517,236
Notes receivable and electronically recorded monetary claims	27,219	27,573	245,238
Allowance for doubtful accounts	(311)	(197)	(2,802)
Total	¥ 195,306	¥ 207,628	$ 1,759,672

For credit risk control and fair value of trade receivables, see Note 23. "Financial Instruments and Other Related Information."

Note 7. Inventories

Inventories as of March 31, 2019 and 2018, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2018	March 31, 2019
Merchandise and finished products	¥ 73,524	¥ 62,842	$ 662,438
Work in process	86,330	75,121	777,818
Raw materials and supplies	54,951	52,239	495,099
Total	¥ 214,805	¥ 190,202	$ 1,935,355

The amount of inventories written down for the years ended March 31, 2019 and 2018, was ¥4,300 million (US $38,742 thousand) and ¥2,942 million, respectively.

Note 8. 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, 2019 and 2018, 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, 2019	March 31, 2018	March 31, 2019
Carrying amount of investments	¥ 28,519	¥ 27,863	$ 256,951

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥ 1,932	¥ 2,489	$ 17,407
Other comprehensive income	(1,222)	520	(11,010)
Total comprehensive income	¥ 710	¥ 3,009	$ 6,397

(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	¥ 44	¥ –	$ 396

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥ 131	¥ 217	$ 1,180
Other comprehensive income	–	–	–
Total comprehensive income	¥ 131	¥ 217	$ 1,180

Note 9. 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, 2019 and 2018:

	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, 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
Additions	753	664	2,604	1,170	4	88,718	93,913
Disposals	(190)	(225)	(2,927)	(971)	(2)	(162)	(4,477)
Depreciation	–	(7,657)	(30,030)	(8,032)	(423)	–	(46,142)
Impairment losses	(44)	(802)	(7,367)	(411)	–	(1,045)	(9,669)
Effects of exchange rate changes	25	844	1,812	181	(28)	197	3,031
Transfer from construction in progress	97	29,618	53,974	8,284	–	(91,973)	–
Change in the scope of consolidation	4,584	1,747	1,314	142	28	31	7,846
Other	(41)	772	(206)	(45)	1,895	(35)	2,340
At March 31, 2019	¥ 60,800	¥ 102,795	¥ 175,121	¥17,531	¥ 1,658	¥ 44,255	¥ 402,160

	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, 2018	$ 501,090	$ 701,270	$ 1,405,055	$ 155,086	$ 1,658	$ 437,193	$ 3,201,351
Additions	6,784	5,983	23,462	10,541	36	799,333	846,139
Disposals	(1,712)	(2,027)	(26,372)	(8,749)	(18)	(1,460)	(40,337)
Depreciation	–	(68,988)	(270,565)	(72,367)	(3,811)	–	(415,731)
Impairment losses	(396)	(7,226)	(66,375)	(3,703)	–	(9,415)	(87,116)
Effects of exchange rate changes	225	7,604	16,326	1,631	(252)	1,775	27,309
Transfer from construction in progress	874	266,853	486,296	74,637	–	(828,660)	–
Change in the scope of consolidation	41,301	15,740	11,839	1,279	252	279	70,691
Other	(369)	6,956	(1,856)	(405)	17,074	(315)	21,083
At March 31, 2019	$ 547,797	$ 926,165	$ 1,577,809	$ 157,951	$ 14,938	$ 398,730	$ 3,623,389

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

Depreciation charges recognized for the years ended March 31, 2019 and 2018, 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, 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
At March 31, 2019	61,010	292,749	694,793	97,447	4,875	44,486	1,195,360
Accumulated depreciation and accumulated impairment losses							
At April 1, 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
At March 31, 2019	210	189,954	519,672	79,916	3,217	231	793,200

	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, 2019	$ 549,689	$ 2,637,616	$ 6,259,960	$ 877,980	$ 43,923	$ 400,811	$ 10,769,979
Accumulated depreciation and accumulated impairment losses							
At March 31, 2019	$ 1,892	$ 1,711,451	$ 4,682,152	$ 720,029	$ 28,985	$ 2,081	$ 7,146,590

Items of property, plant and equipment are grouped by the smallest CGU that generates largely independent cash inflows.

The Group recognized impairment losses of ¥9,669 million (US $87,116 thousand) and ¥10,706 million on property, plant and equipment for the years ended March 31, 2019 and 2018, respectively.

Impairment losses were recognized for the year ended March 31, 2019, to reduce the carrying amounts of business-use assets (mainly machinery), due mainly to a decline in profitability in the heat-resistant casting components of the Functional Components and Equipment segment, to their recoverable amounts for the amount of ¥6,975 million (US $62,843 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 ¥7,394 million (US $66,619 thousand) as of December 31, 2018, when the impairment loss was recognized. 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, 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. 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 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.

Note 10. 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, 2019 and 2018:

	Millions of yen				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Carrying amount					
At April 1, 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
Purchases	–	145	41	1,290	1,476
Amortization	–	(1,351)	(173)	(3,045)	(4,569)
Impairment losses	–	(4)	–	(7)	(11)
Disposals	–	(7)	–	(6)	(13)
Effects of exchange rate changes	3,509	(9)	12	1,212	4,724
Transfer from software in progress	–	1,123	–	(1,123)	–
Change in the scope of consolidation	–	209	–	–	209
Other	–	(17)	2	(139)	(154)
At March 31, 2019	¥ 112,149	¥ 3,063	¥ 165	¥ 28,181	¥ 143,558

	Thousands of U.S. dollars				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Carrying amount					
At April 1, 2018	$ 978,827	$ 26,795	$ 2,550	$ 270,286	$ 1,278,458
Purchases	–	1,306	369	11,623	13,298
Amortization	–	(12,172)	(1,559)	(27,435)	(41,166)
Impairment losses	–	(36)	–	(63)	(99)
Disposals	–	(63)	–	(54)	(117)
Effects of exchange rate changes	31,615	(81)	108	10,920	42,562
Transfer from software in progress	–	10,118	–	(10,118)	–
Change in the scope of consolidation	–	1,883	–	–	1,883
Other	–	(153)	18	(1,252)	(1,388)
At March 31, 2019	$ 1,010,442	$ 27,597	$ 1,487	$ 253,906	$ 1,293,432

Amortization recognized for the years ended March 31, 2019 and 2018, 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, 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
At March 31, 2019	112,644	16,116	1,591	43,807	174,158
Accumulated amortization and accumulated impairment losses					
At April 1, 2017	¥ 495	¥ 11,547	¥ 1,072	¥ 9,691	¥ 22,805
At March 31, 2018	495	12,162	1,206	12,283	26,146
At March 31, 2019	495	13,053	1,426	15,626	30,600

	Thousands of U.S. dollars				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Acquisition cost					
At March 31, 2019	$ 1,014,902	$ 145,202	$ 14,335	$ 394,693	$ 1,569,132
Accumulated amortization and accumulated impairment losses					
At March 31, 2019	$ 4,460	$ 117,605	$ 12,848	$ 140,787	$ 275,701

For the years ended March 31, 2019 and 2018, 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, 2019 and 2018, are ¥18,604 million (US $167,619 thousand) and ¥17,749 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 (¥68,587 million (US $617,957 thousand) and ¥65,372 million as of March 31, 2019 and 2018, respectively) and that related to the Magnetic Materials and Applications segment in connection with the acquisition of additional shares in NEOMAX Co., Ltd. through a tender offer in 2006 (¥35,781 million (US $322,380 thousand) and ¥35,781 million as of March 31, 2019 and 2018, 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 10.0% to 12.0%). 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 11. Deferred Taxes and Income Taxes

The following table shows major components of income taxes:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Income taxes			
Current tax expense	¥ 7,157	¥ 14,377	$ 64,483
Deferred tax expense			
Accruals and reversals of temporary differences	3,276	(6,490)	29,516
Changes in realizability of deferred tax assets	1,363	(2,977)	12,280
Total	¥ 11,796	¥ 4,910	$ 106,280

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 30.44% for each of the years ended March 31, 2019 and 2018.

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

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:

	2019	2018
Combined statutory income tax rate	30.4%	30.7%
Share of profits of investments accounted for using the equity method	(1.5)	(1.8)
Expenses not deductible for tax purposes	0.3	0.3
Gain on bargain purchase	(4.2)	–
Special tax credit for corporate taxes	(0.1)	(4.0)
Adjustments to deferred tax assets and liabilities due to enacted tax laws and rates	0.0	(7.5)
Change in realizability of deferred tax assets	3.2	(6.3)
Difference between the statutory income tax rate of Japan and tax rates used in oversea subsidiaries	(2.1)	(2.5)
Other, net	1.4	1.6
Effective income tax rate	27.4%	10.5%

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

	Millions of yen				
	April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2019
Deferred tax assets					
Retirement and severance benefits	¥ 18,113	¥ (765)	¥ 625	¥ –	¥ 17,973
Accrued expenses	2,455	(188)	–	94	2,361
Depreciation and amortization	5,499	1,701	–	–	7,200
Net operating loss carry-forwards	2	87	–	304	393
Other	18,242	(3,641)	23	(2,431)	12,193
Total deferred tax assets	¥ 44,311	¥ (2,806)	¥ 648	¥ (2,033)	¥ 40,120
Deferred tax liabilities					
Tax purpose reduction entry	(4,365)	76	–	–	(4,289)
Investments in securities	(2,205)	(127)	144	–	(2,188)
Depreciation and amortization	(6,936)	(885)	–	593	(7,228)
Intangible assets acquired in business combinations	(6,353)	206	–	–	(6,147)
Other	(14,477)	(1,103)	–	–	(15,580)
Total deferred tax liabilities	¥ (34,336)	¥ (1,833)	¥ 144	¥ 593	¥ (35,432)
Net deferred tax assets	¥ 9,975	¥ (4,639)	¥ 792	¥ (1,440)	¥4,688

	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

	Thousands of U.S. dollars				
	April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2019
Deferred tax assets					
Retirement and severance benefits	$ 163,195	$ (6,893)	$ 5,631	–	$ 161,934
Accrued expenses	22,119	(1,694)	–	847	21,272
Depreciation and amortization	49,545	15,326	–	–	64,871
Net operating loss carry-forwards	18	784	–	2,739	3,541
Other	164,357	(32,805)	207	(21,903)	109,857
Total deferred tax assets	$ 399,234	$ (25,282)	$ 5,838	$ (18,317)	$ 361,474
Deferred tax liabilities					
Tax purpose reduction entry	(39,328)	685	–	–	(38,643)
Investments in securities	(19,867)	(1,144)	1,297	–	(19,713)
Depreciation and amortization	(62,492)	(7,974)	–	5,343	(65,123)
Intangible assets acquired in business combinations	(57,239)	1,856	–	–	(55,383)
Other	(130,435)	(9,938)	–	–	(140,373)
Total deferred tax liabilities	$ (309,361)	$ (16,515)	$ 1,297	$ 5,343	$ (19,236)
Net deferred tax assets	$ 89,873	$ (41,797)	$ 7,136	$ (12,974)	$ 42,238

Deferred tax liabilities have not been recognized for excess amounts over the tax bases of investments in 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, 2019 and 2018, were ¥162,509 million (US $1,464,177 thousand) and ¥143,391 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, 2019.

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, 2019	March 31, 2018	March 31, 2019
Deductible temporary difference	¥ 33,699	¥ 32,637	$ 303,622
Net operating loss carry-forwards	653	6,870	5,883
Unused tax credits carry-forwards	1,036	554	9,334
Total	¥ 35,388	¥ 40,061	$ 318,840

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, 2019	March 31, 2018	March 31, 2018
Net operating loss carry-forwards			
Within 5 years	¥ 450	¥ 6,870	$ 4,054
After 5 years but not more than 10 years	203	–	1,829
Total net operating loss carry-forwards	¥ 653	¥ 6,870	$ 5,883
Unused tax credits carry-forwards			
Within 5 years	¥ 1,036	¥ 554	$ 9,334
After 5 years but not more than 10 years	–	–	–
Total unused tax credits carry-forwards	¥ 1,036	¥ 554	$ 9,334

Note 12. Trade Payables

Trade payables as of March 31, 2019 and 2018, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2018	March 31, 2019
Accounts payable	¥ 135,553	¥ 151,511	$ 1,221,308
Notes payable and electronically recorded obligations	19,698	21,483	177,475
Total	¥ 155,251	¥ 172,994	$ 1,398,784

Note 13. 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, 2019, are as follows:

	Millions of yen	
	Asset retirement obligations	Provision for environmental measures
Balance at April 1, 2018	¥ 717	¥ 861
Additions	30	93
Utilized	(16)	(111)
Reversals	(74)	(149)
Effects of exchange rate changes	30	–
Change in the scope of consolidation and others	105	–
Balance at March 31, 2019	¥ 792	¥ 694
Current	–	–
Non-current	¥ 792	¥ 694

	Thousands of U.S. dollars	
	Asset retirement obligations	Provision for environmental measures
Balance at April 1, 2018	$ 6,460	$ 7,757
Additions	270	838
Utilized	(144)	(1,000)
Reversals	(667)	(1,342)
Effects of exchange rate changes	270	–
Change in the scope of consolidation and others	946	–
Balance at March 31, 2019	$ 7,136	$ 6,253
Current	–	–
Non-current	$ 7,136	$ 6,253

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 14. 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
	2019	2018	2019
Defined benefit obligations at the beginning of the year	¥ 189,597	¥ 190,008	$ 1,708,235
Service costs	6,771	6,948	61,005
Interest costs	1,987	1,915	17,903
Actuarial gains and losses	133	1,204	1,198
Past service cost	32	(181)	288
Benefits paid	(11,114)	(10,493)	(100,135)
Effects of exchange rate changes and others	215	196	1,937
Defined benefit obligation at the end of the year	¥ 187,621	¥ 189,597	$ 1,690,432

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Fair value of plan assets at the beginning of the year	¥ 133,967	¥ 130,934	$ 1,207,019
Interest income	1,155	1,822	10,406
Return on plan assets (excluding interest income)	521	5,540	4,694
Contributions to defined benefit pension plans (Note)	3,980	3,938	35,859
Benefits paid	(8,419)	(7,997)	(75,854)
Effects of exchange rate changes and others	360	(270)	3,244
Fair value of plan assets at the end of the year	¥ 131,564	¥ 133,967	$ 1,185,368

Note: As of March 31, 2019, the estimated contributions to the defined benefit pension plans for the year ending March 31, 2020, were ¥3,512 million (US $31,642 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, 2019	March 31, 2018	March 31, 2019
Present value of defined benefit obligations (funded)	¥ (181,374)	¥ (181,333)	$ (1,634,147)
Fair value of plan assets	131,564	133,967	1,185,368
Funded status	(49,810)	(47,366)	(448,779)
Present value of defined benefit obligations (unfunded)	(6,247)	(8,264)	(56,284)
Net asset (liability) recognized in the consolidated statement of financial position	¥ (56,057)	¥ (55,630)	$ (505,064)

Components of actuarial gains and losses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Arising from changes in financial assumptions	¥ 330	¥ 1,128	$ 2,973
Arising from changes in demographic assumptions	(134)	(714)	(1,207)
Other	(63)	790	(568)

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, 2019	March 31, 2018
Discount rate	1.1%	1.1%

If, as of March 31, 2019, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥14,065 million (US $126,723 thousand), and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥3,867 million (US $34,841 thousand). If, as of March 31, 2018, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥9,029 million, and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥9,595 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, 2019	March 31, 2018
Duration	10.4 years	10.4 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, 2019 and 2018:

	Millions of yen		
	March 31, 2019		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	¥ 9,672	¥ 257	¥ 9,929
Government and municipal debt securities	931	190	1,121
Corporate and other debt securities	–	1,029	1,029
Hedge funds	–	899	899
Securitized products	–	2,162	2,162
Cash and cash equivalents	11,683	–	11,683
Life insurance company general accounts	–	19,155	19,155
Commingled funds	–	84,590	84,590
Other	81	915	996
Total	¥ 22,367	¥ 109,197	¥ 131,564

	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

	Thousands of U.S. dollars		
	March 31, 2019		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	$ 87,143	$ 2,316	$ 89,459
Government and municipal debt securities	8,388	1,712	10,100
Corporate and other debt securities	–	9,271	9,271
Hedge funds	–	8,100	8,100
Securitized products	–	19,479	19,479
Cash and cash equivalents	105,262	–	105,262
Life insurance company general accounts	–	172,583	172,583
Commingled funds	–	762,141	762,141
Other	730	8,244	8,974
Total	$ 201,523	$ 983,845	$ 1,185,368

Commingled funds represent pooled institutional investments. Approximately 33% and 32% of commingled funds were invested in listed stocks as of March 31, 2019 and 2018, respectively. Approximately 45% and 44% were invested in government and municipal debt securities as of March 31, 2019 and 2018, respectively. Approximately 17% and 12% were invested in corporate and other debt securities as of March 31, 2019 and 2018, respectively. Approximately 5% and 12% were invested in other assets as of March 31, 2019 and 2018, respectively.

Expenses recognized in relation to the Company's and certain subsidiaries' contributions to the defined contribution plans amounted to ¥3,025 million (US $27,255 thousand) and ¥3,324 million for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, were ¥144,014 million (US $1,297,540 thousand) and ¥136,553 million, respectively.

Note 15. Equity

(1) Common Stock

	March 31, 2019	March 31, 2018
Authorized issuance (Number of shares)	500,000,000	500,000,000

	Issued shares (Number of shares)
Balance as of April 1, 2017	428,904,352
Changes during the year	–
Balance as of March 31, 2018	428,904,352
Changes during the year	–
Balance as of March 31, 2019	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, 2019 and 2018, are as follows:

	Treasury shares (Number of shares)
Balance as of April 1, 2017	1,327,900
Acquisition of treasury stock	4,476
Sales of treasury stock	(241)
Balance as of March 31, 2018	1,332,135
Acquisition of treasury stock	2,712
Sales of treasury stock	(406)
Balance as of March 31, 2019	1,334,441

Treasury stock held by the Company's associates as of March 31, 2019 and 2018, 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 16. 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
	2019	2018	2019
Foreign currency translation adjustments on foreign operations:			
Balance at the beginning of the year	¥ 1,411	¥ 7,725	$ 12,713
Net other comprehensive income	5,718	(6,314)	51,518
Balance at the end of the year	¥ 7,129	¥ 1,411	$ 64,231
Remeasurements of defined benefit pension plans:			
Balance at the beginning of the year	¥7,615	¥ 5,521	$ 68,610
Net other comprehensive income	1,012	2,094	9,118
Balance at the end of the year	¥8,627	¥ 7,615	$ 77,728
Net change in fair value of financial assets measured at FVTOCI:			
Balance at the beginning of the year	¥ 7,836	¥ 6,724	$ 70,601
Transfer to retained earnings	(163)	(18)	(1,469)
Net other comprehensive income	(1,489)	1,130	(13,416)
Balance at the end of the year	¥ 6,184	¥ 7,836	$ 55,717
Net change in fair value of cash flow hedges:			
Balance at the beginning of the year	¥34	¥ (415)	$ 306
Net other comprehensive income	(49)	449	(441)
Balance at the end of the year	¥ (15)	¥ 34	$ (135)
Total accumulated other comprehensive income:			
Balance at the beginning of the year	¥ 16,896	¥ 19,555	$ 152,230
Transfer to retained earnings	(163)	(18)	(1,469)
Net other comprehensive income	5,192	(2,641)	46,779
Balance at the end of the year	¥ 21,925	¥ 16,896	$ 197,540

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, 2019 and 2018:

	Millions of yen		
	2019		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	¥ 6,151	¥ –	¥ 6,151
Remeasurements of defined benefit obligations	388	625	1,013
Net gains or losses from financial assets measured at fair value through other comprehensive income	(517)	154	(363)
Net change in fair value of cash flow hedges	(23)	8	(15)
Share of other comprehensive income of investments accounted for using the equity method	(1,548)	326	(1,222)
Total	¥ 4,451	¥ 1,113	¥ 5,564
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	¥ (351)	¥ –	¥ (351)
Net change in fair value of cash flow hedges	(49)	15	(34)
Total	¥ (400)	¥ 15	¥ (385)
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	¥ 5,800	¥ –	¥ 5,800
Remeasurements of defined benefit obligations	388	625	1,013
Net gains or losses from financial assets measured at fair value through other comprehensive income	(517)	154	(363)
Net change in fair value of cash flow hedges	(72)	23	(49)
Share of other comprehensive income of investments accounted for using the equity method	(1,548)	326	(1,222)
Total	¥ 4,051	¥ 1,128	¥ 5,179
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			¥ (13)
Net gains or losses from financial assets measured at fair value through other comprehensive income			–
Net change in fair value of cash flow hedges			–
Total			¥ (13)
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			
Foreign currency translation adjustments on foreign operations			¥ 5,813
Remeasurements of defined benefit obligations			1,013
Net gains or losses from financial assets measured at fair value through other comprehensive income			(363)
Net change in fair value of cash flow hedges			(49)
Share of other comprehensive income of investments accounted for using the equity method			(1,222)
Total			¥ 5,192

	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
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)

	Thousands of U.S. dollars		
	2019		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	$ 55,419	$ –	$ 55,419
Remeasurements of defined benefit obligations	3,496	5,631	9,127
Net gains or losses from financial assets measured at fair value through other comprehensive income	(4,658)	1,388	(3,271)
Net change in fair value of cash flow hedges	(207)	72	(135)
Share of other comprehensive income of investments accounted for using the equity method	(13,947)	2,937	(11,010)
Total	$ 40,103	$ 10,028	$ 50,131
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	$ (3,162)	$ –	$ (3,162)
Net change in fair value of cash flow hedges	(441)	135	(306)
Total	$ (3,604)	$ 135	$ (3,469)
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	$ 52,257	$ –	$ 52,257
Remeasurements of defined benefit obligations	3,496	5,631	9,127
Net gains or losses from financial assets measured at fair value through other comprehensive income	(4,658)	1,388	(3,271)
Net change in fair value of cash flow hedges	(649)	207	(441)
Share of other comprehensive income of investments accounted for using the equity method	(13,947)	2,937	(11,010)
Total	$ 36,499	$ 10,163	$ 46,662
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			$ (117)
Net gains or losses from financial assets measured at fair value through other comprehensive income			–
Net change in fair value of cash flow hedges			–
Total			$ (117)
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			$ 52,374
Foreign currency translation adjustments on foreign operations			9,127
Net gains or losses from financial assets measured at fair value through other comprehensive income			(3,271)
Net change in fair value of cash flow hedges			(441)
Share of other comprehensive income of investments accounted for using the equity method			(11,010)
Total			$ 46,779

Note 17. Dividends

Dividends paid for the years ended March 31, 2019 and 2018, are as follows:

Resolution adopted	Type of shares	Millions of yen	Appropriation from	Yen	Record date	Effective date
		Aggregate amount		Amount per share		
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
Board of Directors' meeting on May 29, 2018	Common stock	¥ 5,558	Retained earnings	¥ 13.0	March 31, 2018	May, 31, 2018
Board of Directors' meeting on October 25, 2018	Common stock	¥ 7,269	Retained earnings	¥ 17.0	September 30, 2018	November 28, 2018

Resolution adopted	Type of shares	Thousands of U.S. dollars	Appropriation from	U.S. dollars	Record date	Effective date
		Aggregate amount		Amount per share		
Board of Directors' meeting on 'May 29, 2018	Common stock	$ 50,077	Retained earnings	$ 0.12	March 31, 2018	May, 31, 2018
Board of Directors' meeting on October 25, 2018	Common stock	$ 65,492	Retained earnings	$ 0.15	September 30, 2018	November 28, 2018

Dividends whose record date is during the year ended March 31, 2019, but whose effective date is in the following fiscal year are as follows:

Resolution adopted	Type of shares	Millions of yen	Appropriation from	Yen	Record date	Effective date
		Aggregate amount		Amount per share		
Board of Directors' meeting on May 27, 2019	Common stock	¥ 7,269	Retained earnings	¥ 17.0	March 31, 2019	May 29, 2019

Resolution adopted	Type of shares	Thousands of U.S. dollars	Appropriation from	U.S. dollars	Record date	Effective date
		Aggregate amount		Amount per share		
Board of Directors' meeting on May 27, 2019	Common stock	$ 65,492	Retained earnings	$ 0.15	March 31, 2019	May 29, 2019

Note 18. Revenues

(1) Disaggregation of revenue

The Group has four reportable segments as described in Note 4. “Segment Information,” which include the Specialty Steel Products, Magnetic Materials and Applications, Functional Components and Equipment, and Wires, Cables, and Related Products segments. Revenues are disaggregated according to businesses based on the types of products and services. Relationship of the disaggregated revenues and revenues of each reportable segment is as follows:

		Millions of yen		Thousands of U.S. dollars
		2019	2018	2019
Specialty Steel Products				
	Specialty Steel Business	¥ 253,262	¥ 243,833	$ 2,281,845
	Roll Business	23,642	21,158	213,010
	Soft Magnetic Materials Business	27,658	25,608	249,194
Magnetic Materials and Applications				
	Magnet Business	109,351	106,131	985,233
Functional Components and Equipment				
	Automotive Components Business	319,757	308,543	2,880,953
	Piping Components Business	47,806	51,510	430,723
Wires, Cables, and Related Products				
	Electric Wires and Cables Business	240,123	230,532	2,163,465
Others and adjustments		1,822	988	16,416
Total		¥ 1,023,421	¥ 988,303	$ 9,220,840

(2) Information regarding satisfaction of performance obligations

The Group recognizes revenue at a point in time in which control of a product is transferred to a customer because performance obligations of all businesses described in (1) “Disaggregation of revenues” are satisfied mainly when the Group sells a product to a customer and the customer accepts the product. The payment terms are determined as generally accepted terms for regular transactions. There are no significant transactions with special payment terms, such as extended payment terms.

(3) Information regarding contract balances

The beginning and ending balances of trade receivables and contract liabilities that arise from contracts with customers of the Group for the year ended March 31, 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	April 1, 2018	March 31, 2019
Trade receivables	¥ 195,306	¥ 207,628	$ 1,759,672
Contract liabilities	534	869	4,811

Note that the amount of revenues recognized for the year ended March 31, 2019, which were included in the beginning balance of the contract liabilities is immaterial.

(4) Transaction price allocated to the remaining performance obligations

The Group adopts a practical expedient and omits disclosure regarding the remaining performance obligations because there are no transactions with expected contract durations of over one year. No material consideration from contracts with customers is excluded from the transaction price.

(5) Capitalized incremental costs incurred to obtain or fulfill a contract with a customer

The Group has no capitalized incremental costs incurred to obtain or fulfill a contract with a customer.

Note 19. Other Income and Other Expenses

Other income and other expenses consist of the following items for the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other income:			
Gain on reorganization (*)	¥ 5,851	¥ 406	$ 52,716
Rental income from properties held	1,371	1,454	12,352
Other	3,445	3,541	31,039
Total other income	¥ 10,667	¥ 5,401	$ 96,108
Other expenses:			
Structural reform expenses	¥ 3,306	¥ 799	$ 29,786
Loss on disposal of property, plant and equipment	3,999	3,950	36,030
Impairment loss on property, plant and equipment	7,394	10,611	66,619
Compensation expenses	–	4,382	–
Other	4,953	4,463	44,626
Total other expenses	¥ 19,652	¥ 24,205	$ 177,061

Note: Gain on reorganization for the years ended March 31, 2019 and 2018, includes ¥94 million (US $847 thousand) and ¥400 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, 2019 and 2018.

Note 20. Other Financial Income and Expenses

Other financial income and expenses for the years ended March 31, 2019 and 2018, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other financial income:			
Dividend income (*)	¥ 128	¥ 144	$ 1,153
Exchange gain	718	–	6,469
Other	–	844	–
Total	¥ 846	¥ 988	$ 7,622
Other financial expenses:			
Exchange loss	–	1,148	–
Other	8	2	72
Total	¥ 8	¥ 1,150	$ 72

Dividend income is from financial assets measured at FVTOCI.

Note 21. 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	
	2019	2018
Weighted-average number of common stock on which basic EPS is calculated	427,570	427,573

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income attributable to shareholders of the parent company	¥ 31,370	¥ 42,210	$ 282,638

	Yen		U.S. dollars
	2019	2018	2019
Basic EPS attributable to shareholders of the parent company	¥ 73.37	¥ 98.72	$ 0.66

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, 2019 and 2018.

Note 22. Supplementary Explanation on the Consolidated Statement of Cash Flows

Changes in liabilities arising from financing activities during the fiscal year ended March 31, 2019 and 2018, are as follows:

	Millions of yen				
	Short-term debt	Corporate bonds payable	Long-term debt	Lease obligations	Total
Balance as of April 1, 2018	¥ 27,203	¥ 9,997	¥ 123,446	¥ 198	¥ 160,844
Increase (decrease) involving cash flows	18,522	29,588	(18,506)	(428)	29,176
Increase (decrease) not involving cash flows:					
Effects of exchange rate changes	868	11	1,969	24	2,872
Change in the scope of consolidation and others	2,251	1,010	3,921	2,024	9,206
Balance as of March 31, 2019	¥ 48,844	¥ 40,606	¥ 110,830	¥ 1,818	¥ 202,098

	Millions of yen				
	Short-term debt	Corporate bonds payable	Long-term debt	Lease obligations	Total
Balance as of April 1, 2017	¥ 26,301	¥ 29,984	¥ 137,782	¥ 390	¥ 194,457
Increase (decrease) involving cash flows	2,335	(20,000)	(11,690)	–	(29,355)
Increase (decrease) not involving cash flows:					
Effects of exchange rate changes	(1,433)	13	(2,646)	(192)	(4,258)
Change in the scope of consolidation and others	–	–	–	–	–
Balance as of March 31, 2018	¥ 27,203	¥ 9,997	¥ 123,446	198	¥ 160,844

	Thousands of U.S. dollars				
	Short-term debt	Corporate bonds payable	Long-term debt	Lease obligations	Total
Balance as of April 1, 2018	$ 245,094	$ 90,071	$ 1,112,226	$ 1,784	$ 1,449,176
Increase (decrease) involving cash flows	166,880	266,583	(166,736)	(3,856)	262,871
Increase (decrease) not involving cash flows:					
Effects of exchange rate changes	7,821	99	17,740	216	25,876
Change in the scope of consolidation and others	20,281	9,100	35,328	18,236	82,944
Balance as of March 31, 2019	$ 440,076	$ 365,853	$ 998,558	$ 16,380	$ 1,820,867

Note 23. 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, 2019 and 2018, would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Impact on income before income taxes	¥ 2	¥ 225	$ 18

(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, 2019 and 2018, would have been as follows:

	Currency	Millions of yen		Thousands of U.S. dollars
		2019	2018	2019
Impact on income before income taxes	US Dollar	¥ 162	¥ 142	$ 1,460
	Euro	35	62	315
	Other	23	2	207

(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 27. "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 accounts for trade receivables and other receivables, and reconciliation of the gross carrying amount for trade receivables and other receivables corresponding to the allowance for doubtful accounts for the year ended March 31, 2019, are as follows:

Trade receivables	Millions of yen					
	Allowance for doubtful accounts			Gross carrying amount		
	Collective assessment basis	Individual assessment basis	Total	Collective assessment basis	Individual assessment basis	Total
March 31, 2018 (before change in the accounting policy)	¥ 98	¥ 105	¥ 203	¥ 207,738	¥ 105	¥ 207,843
Cumulative effect of change in the accounting policy	–	–	–	–	–	–
April 1, 2018 (after change in the accounting policy)	98	105	203	207,738	105	207,843
Changes during the year (net)	30	129	159	(12,386)	223	(12,163)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	(44)	(5)	(49)	(44)	(5)	(49)
Others (c)	–	–	–	–	–	–
March 31, 2019	¥ 84	¥ 229	¥ 313	¥ 195,308	¥ 323	¥ 195,631

Trade receivables	Thousands of U.S. dollars					
	Allowance for doubtful accounts			Gross carrying amount		
	Collective assessment basis	Individual assessment basis	Total	Collective assessment basis	Individual assessment basis	Total
March 31, 2018 (before change in the accounting policy)	$ 883	$ 946	$ 1,829	$ 1,871,682	$ 946	$ 1,872,628
Cumulative effect of change in the accounting policy	–	–	–	–	–	–
April 1, 2018 (after change in the accounting policy)	883	946	1,829	1,871,682	946	1,872,628
Changes during the year (net)	270	1,162	1,433	(111,596)	2,009	(109,586)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	(396)	(45)	(441)	(396)	(45)	(441)
Others (c)	–	–	–	–	–	–
March 31, 2019	$ 757	$ 2,063	$ 2,820	$ 1,759,690	$ 2,910	$ 1,762,600

Other receivables	Millions of yen					
	Allowance for doubtful accounts			Gross carrying amount		
	Collective assessment basis	Individual assessment basis	Total	Collective assessment basis	Individual assessment basis	Total
March 31, 2018 (before change in the accounting policy)	¥ 12	¥ 8	¥ 20	¥ 24,108	¥ 8	¥ 24,116
Cumulative effect of change in the accounting policy	–	–	–	–	–	–
April 1, 2018 (after change in the accounting policy)	12	8	20	24,108	8	24,116
Changes during the year (net)	3	–	3	(5,921)	–	(5,921)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	(4)	(7)	(11)	(296)	(7)	(303)
Others (c)	–	–	–	–	–	–
March 31, 2019	¥ 11	¥ 1	¥ 12	¥ 17,891	¥ 1	¥ 17,892

Other receivables	Thousands of U.S. dollars					
	Allowance for doubtful accounts			Gross carrying amount		
	Collective assessment basis	Individual assessment basis	Total	Collective assessment basis	Individual assessment basis	Total
March 31, 2018 (before change in the accounting policy)	$ 108	$ 72	$ 180	$ 217,209	$ 72	$ 217,281
Cumulative effect of change in the accounting policy	–	–	–	–	–	–
April 1, 2018 (after change in the accounting policy)	108	72	180	217,209	72	217,281
Changes during the year (net)	27	–	27	(53,347)	–	(53,347)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	(36)	(63)	(99)	(2,667)	(63)	(2,730)
Others (c)	–	–	–	–	–	–
March 31, 2019	$ 99	$ 9	$ 108	$ 161,195	$ 9	$ 161,204

Notes:

(a) Allowance for doubtful accounts for credit-impaired financial assets is reclassified from a collective assessment basis to an individual assessment basis in order to measure the allowance for doubtful accounts on an individual basis.

(b) When the Group determines that it no longer has reasonable expectations of recovering a financial asset in its entirety or a portion thereof, the financial asset is directly written off and derecognized.

(c) Others include mainly change in the scope of consolidation and effects of exchange rate changes.

Reconciliation of allowance for doubtful accounts for the year ended March 31, 2018, is as follows:

	Millions of yen
	March 31, 2018
Balance at the beginning of the year	¥ 293
Additions (provision)	604
Utilized (write off)	(2)
Unused amount reversed (recovery)	(657)
Other	(15)
Balance at the end of the year	¥ 223

(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 financial institutions. 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, 2019, are disclosed in Note 27. “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, 2019				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	¥ 48,844	¥ 50,223	¥ 50,223	¥ –	¥ –
Current portion of long-term debt					
Current portion of long-term borrowings	33,124	33,346	33,346	–	–
Current portion of corporate bonds payable	720	722	722	–	–
Lease obligations	424	424	424	–	–
Long-term debt					
Long-term borrowings	77,706	79,654	760	78,643	251
Corporate bonds payable	39,886	40,641	76	15,351	25,214
Lease obligations	1,394	1,394	–	1,079	315

	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
Corporate bonds payable	–	–	–	–	–
Lease obligations	80	80	–	80	–

	Thousands of U.S. dollars				
	March 31, 2019				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	$ 440,076	$ 452,500	$ 452,500	$ –	$ –
Current portion of long-term debt					
Current portion of long-term borrowings	298,441	300,441	300,441	–	–
Current portion of corporate bonds payable	6,487	6,505	6,505	–	–
Lease obligations	3,820	3,820	3,820	–	–
Long-term debt					
Long-term borrowings	700,117	717,668	6,847	708,559	2,261
Corporate bonds payable	359,366	366,168	685	138,310	227,174
Lease obligations	12,560	12,560	–	9,722	2,838

The weighted-average interest rates of short-term debt, the current portion of long-term debt, and long-term debt are 2.91%, 1.00%, and 1.03%, respectively. The maturities range from 2019 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, 2019	March 31, 2018	March 31, 2019			
The Company	The 30th unsecured corporate bond	September 13, 2011	¥ –	¥ 9,997	$ –	Unsecured	0.79	September 13, 2018
The Company	The 31st unsecured corporate bond	December 6, 2018	¥ 14,941	¥ –	$ 134,616	Unsecured	0.14	December 6, 2023
The Company	The 32nd unsecured corporate bond	December 6, 2018	¥ 14,941	¥ –	$ 134,616	Unsecured	0.28	December 5, 2025
The Company	The 33th unsecured corporate bond	December 6, 2018	¥ 9,954	¥ –	$ 89,684	Unsecured	0.385	December 6, 2028
Santoku Corporation	Santoku Corporation The 30th unsecured corporate bond	July 31, 2014	¥ 200	¥ –	$ 1,802	Unsecured	0.38	July 31, 2019
Santoku Corporation	Santoku Corporation the 31st unsecured corporate bond	September 25, 2014	¥ 400	¥ –	$ 3,604	Unsecured	0.66	September 25, 2019
Santoku Corporation	Santoku Corporation the 32nd unsecured corporate bond	September 30 ,2014	¥ 100	¥ –	$ 901	Unsecured	0.41	September 30, 2019
Santoku Corporation	Santoku Corporation the 33th unsecured corporate bond	September 29, 2017	¥ 70	¥ –	$ 631	Unsecured	0.21	September 29, 2022
Total	–	–	¥ 40,606	¥ 9,997	$ 365,853	–	–	–

Contingent liabilities disclosed in Note 27. “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, 2019			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	¥ 6	¥ –	¥ –	¥ 6
	Out	–	–	–	–
Interest rate swaps	In	–	346	–	346
	Out	119	256	–	375
Put options	In	–	6,061	–	6,061
	Out	–	–	–	–

		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	–	–	–	–

		Thousands of U.S. dollars			
		March 31, 2019			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	$ 54	$ –	$ –	$ 54
	Out	–		–	–
Interest rate swaps	In	–	3,117	–	3,117
	Out	1,072	2,307	–	3,379
Put options	In	–	54,609	–	54,609
	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, 2019, was ¥587,979 million (US $5,297,585 thousand), which increased by ¥25,259 million (US $227,579 thousand) from the end of the year ended March 31, 2018. As a result, the ratio of equity attributable to shareholders of the parent company as of March 31, 2019, was 53.5%, an increase from 53.1% as of March 31, 2018.

(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, 2019 and 2018, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2019		March 31, 2018		March 31, 2019	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Financial assets measured at FVTPL						
Current						
Securities	¥ 1,703	¥ 1,703	¥ 790	¥ 790	$ 15,344	$ 15,344
Derivatives						
Forward exchange contracts	6	6	–	–	54	54
Copper futures contracts	–	–	6	6	–	–
Non-current						
Securities	1,734	1,734	1,791	1,791	15,623	15,623
Derivatives						
Interest rate swaps	90	90	100	100	811	811
Put options	6,061	6,061	6,061	6,061	54,609	54,609
Financial assets measured at FVTOCI						
Non-current						
Securities	9,974	9,974	10,876	10,876	89,864	89,864
Financial assets measured at amortized cost						
Current						
Short-term loans receivable	17	17	1	1	153	153
Non-current						
Other debt securities	1,448	1,448	1,911	1,911	13,046	13,046
Long-term loans receivable	654	654	612	612	5,892	5,892

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, 2019	
Equity instruments	Fair value
Riken Corporation	¥ 1,793
Kakimoto Co., Ltd.	1,422
Kowa Kogyosho Co., Ltd.	1,371
Konwa Kaikan	831
OSG Corporation	781
Owari Precise Products Co., Ltd.	431
Kojima Co., Ltd.	338
WEARE Pacific Co., Ltd.	251
Mikuni Shoji Co., Ltd.	237
NTC Corporation	183

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

Thousands of U.S. dollars	
March 31, 2019	
Equity instruments	Fair value
Riken Corporation	$ 16,155
Kakimoto Co., Ltd.	12,812
Kowa Kogyosho Co., Ltd.	12,352
Konwa Kaikan	7,487
OSG Corporation	7,037
Owari Precise Products Co., Ltd.	3,883
Kojima Co., Ltd.	3,045
WEARE Pacific Co., Ltd.	2,261
Mikuni Shoji Co., Ltd.	2,135
NTC Corporation	1,649

(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, 2019		March 31, 2018		March 31, 2019	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Financial liabilities measured at FVTPL						
Current						
Derivatives						
Interest rate swaps	¥ 119	¥ 119	¥ –	¥ –	$ 1,072	$ 1,072
Forward exchange contracts	–	–	35	35	–	–
Non-current						
Derivatives						
Forward exchange contracts	–	–	2	2	–	–
Financial liabilities measured at amortized cost						
Current						
Short-term debt	48,844	48,844	27,203	27,203	440,076	440,076
Current portion of long-term debt						
Current portion of long-term borrowings	33,124	33,288	17,253	17,390	298,441	299,919
Current portion of corporate bonds payable	720	720	9,997	10,032	6,487	6,487
Lease obligations	424	424	118	118	3,820	3,820
Non-current						
Long-term debt						
Long-term borrowings	77,706	78,420	106,193	107,886	700,117	706,550
Corporate bonds payable	39,886	40,264	–	–	359,366	362,771
Lease obligations	1,394	1,394	80	80	12,560	12,560

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, 2019 and 2018:

	Millions of yen			
	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	¥ 1,703	¥ –	¥ –	¥ 1,703
Derivatives	–	6	–	6
FVTPL (Non-current)				
Securities	–	1,042	692	1,734
Derivatives	–	90	6,061	6,151
FVTOCI (Non-current)	3,265	–	6,709	9,974
Liabilities				
FVTPL (Current)	–	119	–	119
FVTPL (Non-current)	–	–	–	–

	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

	Thousands of U.S. dollars			
	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	$ 15,344	$ –	$ –	$ 15,344
Derivatives	–	54	–	54
FVTPL (Non-current)				
Securities	–	9,388	6,235	15,623
Derivatives	–	811	54,609	55,419
FVTOCI (Non-current)	29,417	–	60,447	89,864
Liabilities				
FVTPL (Current)	–	1,072	–	1,072
FVTPL (Non-current)	–	–	–	–

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, 2019 and 2018:

	Millions of yen		
	FVTPL	FVTOCI	Total
At April 1, 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
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	139	139
Sales or redemption	(118)	(399)	(517)
Purchases or acquisition	13	11	24
Other	8	(107)	(99)
At March 31, 2019	¥ 6,753	¥ 6,709	¥ 13,462

	Thousands of U.S. dollars		
	FVTPL	FVTOCI	Total
At March 31, 2018	$ 61,717	$ 63,654	$ 125,372
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	1,252	1,252
Sales or redemption	(1,063)	(3,595)	(4,658)
Purchases or acquisition	117	99	216
Other	72	(964)	(892)
At March 31, 2019	$ 60,843	$ 60,447	$ 121,290

There were no changes in unrealized gains (losses) recognized in profit or loss relating to assets held as of March 31, 2019 and 2018.

The comprehensive income is included in net change in fair value of financial assets measured at fair value through other comprehensive income in the consolidated statement of comprehensive 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 assets or liabilities 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, 2019, the expected period for cash flows arising from hedged items and affecting profit or loss is to be from April 2018 to June 2021.

The fair values of derivatives designated as hedging instruments as of March 31, 2019 and 2018, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2019		March 31, 2018		March 31, 2019	
	Asset	Liability	Asset	Liability	Asset	Liability
Cash flow hedges						
Forward exchange contracts	¥ 6	¥ –	¥ 17	¥ 54	$ 54	$ –
Interest rate swaps	346	375	561	461	3,117	3,379
Total	¥ 352	¥ 375	¥ 578	¥ 515	$ 3,171	$ 3,379

The fair values of derivative assets and liabilities to which hedge accounting is not applied were ¥6,061 million (US $54,609 thousand) and ¥– million (US $– thousand), respectively, as of March 31, 2019, and ¥6,067 million and ¥– million, respectively, as of March 31, 2018.

The contract or notional amounts of derivatives as of March 31, 2019 and 2018, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2018	March 31, 2019
Forward exchange contracts:			
To sell foreign currencies	¥ –	¥ 913	$ –
To buy foreign currencies	234	1,427	2,108
Interest rate swaps	83,248	92,684	750,050
Copper futures contracts	–	132	–

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
Forward exchange contracts	¥ (79)
Interest rate swaps	100
Copper futures contracts	6
Total	¥ 27

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	¥ 144
Interest rate swaps	Other financial income and expenses	453
Total		¥ 597

As the Company applies hedge accounting, it assesses hedge effectiveness through a qualitative assessment of whether the critical terms of the hedged item and the hedging instrument match or are closely aligned, and whether changes in the fair value or the cash flows of the hedged item offset changes in the fair value or the cash flows of the hedging instrument, in order to verify that there is an economic relationship between the hedged item and the hedging instrument. The Company also sets an appropriate hedge ratio, based on the economic relationship of the hedging instrument and the hedged item, and a risk management strategy.

Notional amounts and carrying amounts of hedging instruments as of March 31, 2019, are as follows. Note that carrying amounts of hedging instruments are included in "Investments in securities and other financial assets" and "Other financial liabilities," or "Other non-current liabilities" in the Consolidated Statement of Financial Position.

Hedging Instruments	Millions of yen			
	Notional amount		Carrying amount	
		Over one year	Asset	Liability
Cash flow hedges				
Currency exchange risk	¥ 234	¥ –	¥ 6	¥ –
Interest rate risk	83,248	63,248	346	375
Total	¥ 83,482	¥ 63,248	¥ 352	¥ 375

Hedging Instruments	Thousands of U.S. dollars			
	Notional amount		Carrying amount	
		Over one year	Asset	Liability
Cash flow hedges				
Currency exchange risk	$ 2,108	$ –	$ 54	$ –
Interest rate risk	750,050	569,853	3,117	3,379
Total	$ 752,158	$ 569,853	$ 3,171	$ 3,379

Reconciliation of fair value of the hedging instruments applying cash flow hedges, which are recognized in other comprehensive income during the year ended March 31, 2019, is as follows:

	Balance at the beginning of the year	Change in fair value of hedging instrument recognized in other comprehensive income	Amounts directly included carrying amounts of hedged assets and liabilities	Reclassification to profit or loss (a)	Others (b)	Balance at the end of the year
Price risk	¥ 6	¥ (6)	¥ –	¥ –	¥ –	¥ –
Currency exchange risk	(79)	85	–	–	–	6
Interest rate risk	100	(129)	–	–	–	(29)
Total	¥ 27	¥ (50)	¥ –	¥ –	¥ –	¥ (23)

	Balance at the beginning of the year	Change in fair value of hedging instrument recognized in other comprehensive income	Amounts directly included carrying amounts of hedged assets and liabilities	Reclassification to profit or loss (a)	Others (b)	Balance at the end of the year
Price risk	$ 54	$ (54)	$ –	$ –	$ –	$ –
Currency exchange risk	(712)	766	–	–	–	54
Interest rate risk	901	(1,162)	–	–	–	(261)
Total	$ 243	$ (450)	$ –	$ –	$ –	$ (207)

Notes:

(a) Reclassified amounts to profit or loss are included in cost of sales for price risk in revenues and financial expenses for currency exchange risk, and in cost of sales and interest charges for interest rate risk in the consolidated statement of income.

(b) Others include mainly changes in the scope of consolidation.

Note 24. Pledged Assets

The following assets were pledged as collateral by certain subsidiaries for their accounts payables as of March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2018	March 31, 2019
Securities and other financial assets	–	¥ 122	–
Total	–	¥ 122	–

Note 25. Major Subsidiaries and Associates

The Company's consolidated financial statements include the following subsidiaries:

As of March 31, 2019

Name	Location	Principal business	Voting rights %
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
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
Santoku Corporation	Higashinada-ku, Kobe, Hyogo	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	Wires, Cables, and Related 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	Specialty Steel Products	70.0
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
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
HNV Castings Private Limited	Delhi, India	Functional Components and Equipment	100.0
Hitachi Metals America, Ltd.	New York, U.S.A.	Sales of products	100.0

As of March 31, 2019

Name	Location	Principal business	Voting rights %
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.	Wires, Cables, and Related 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 21 companies	–	–	–

Note 26. Transactions with Related Parties

(1) Transactions with Related Parties

Transactions with the related parties are as follows:

For the year ended March 31, 2019:

Attribution	Name	Nature of transaction	Millions of yen		Thousands of U.S. dollars	
			Transaction amount	Balance at year-end	Transaction amount	Balance at year-end
Parent company	Hitachi, Ltd.	Deposits with and Borrowings from Hitachi Group cash pooling system (*1) (*3)	Withdrawal ¥ 8,059 Borrowings ¥ 7,724 (*4)	¥ 7,724	Withdrawal $ 72,610 Borrowings $ 69,592 (*4)	$ 69,592
Company with the same parent company	Hitachi America Capital, Ltd.	Borrowings from a cash pooling system (*2) (*3)	Borrowings ¥ 9,179 (*4)	¥ 28,302	Borrowings $ 82,701 (*4)	$ 254,996

Notes:

*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.

For the year ended March 31, 2018:

Attribution	Name	Nature of transaction	Millions of yen	
			Transaction amount	Balance at year-end
Parent company	Hitachi, Ltd.	Deposits with Hitachi Group cash pooling system (*1) (*3)	Withdrawal ¥ 76,125 (*4)	¥ 8,059
Company with the same parent company	Hitachi America Capital, Ltd.	Borrowings from a cash pooling system (*2) (*3)	Borrowings ¥ 5,660 (*4)	¥ 19,123
Associate	SUMIDEN HITACHI CABLE Ltd.	Sales of products (*5)	¥ 24,016	¥ 14,233

Notes:

*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, 2019	For the year ended March 31, 2018	For the year ended March 31, 2019
Short-term employee benefits	¥ 639	¥ 642	$ 5,757

Note 27. Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)

(1) Loan Commitments

The Group has lines of credit arrangements with financial institutions in order to secure financing sources for business operations. The total unused lines of credit as of March 31, 2019 and 2018, were ¥40,000 million (US $360,393 thousand) and ¥40,000 million, respectively. The Group also has overdraft facilities with financial institutions. The unused facilities under these agreements as of March 31, 2019 and 2018, were ¥86,308 million (US $777,620 thousand) and ¥82,108 million, respectively.

(2) Commitments for Acquisition of Assets

Outstanding commitments for the purchase of property, plant and equipment as of March 31, 2019 and 2018, were ¥20,845 million (US $187,810 thousand) and ¥53,326 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 ¥3,188 million (US $28,723 thousand) and ¥3,644 million as of March 31, 2019 and 2018, respectively.

Note 28. Subsequent Events

There are no applicable items.

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Building a better working world

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, 2019, 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, 2019, 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 25, 2019
Tokyo, Japan