Financial Section

2020 ANNUAL REPORT
Year Ended March 31, 2020

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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						
	2020	2019	2018	2017	2016	2015	2014
Results for the period:							
Revenues	¥ 881,402	¥ 1,023,421	¥ 988,303	¥ 910,486	¥ 1,017,584	¥ 1,004,373	¥ 807,794
Cost of sales	(755,947)	(851,029)	(803,607)	(731,153)	(819,433)	(793,517)	(637,081)
Selling, general and administrative expenses	(111,072)	(120,965)	(119,566)	(113,350)	(122,090)	(126,446)	(106,851)
Other income	8,599	10,667	5,401	14,070	36,416	21,303	5,844
Other expenses	(62,108)	(19,652)	(24,205)	(11,786)	(12,523)	(21,306)	(16,278)
Operating income	(39,126)	42,442	46,326	68,267	99,954	84,407	53,428
Income (loss) before income taxes and non-controlling interests	(40,614)	43,039	46,985	66,016	96,233	86,391	55,820
Net income (loss) attributable to shareholders of the parent company	(37,648)	31,370	42,210	50,593	69,056	70,569	48,133
Cash flows for the period:							
Cash flows from operating activities	105,958	66,582	39,133	89,391	115,742	108,983	99,171
Cash flows from investing activities	(56,418)	(96,247)	(75,080)	(35,864)	(32,147)	(113,750)	(9,832)
Free cash flows	49,540	(29,665)	(35,947)	53,527	83,595	(4,767)	89,339
Growth initiative costs:							
Capital expenditures	53,019	95,389	91,786	63,843	59,602	51,474	31,987
Depreciation and amortization	55,180	50,901	46,138	43,039	42,927	39,917	33,762
Research and development	15,918	18,604	17,749	17,971	19,121	20,903	16,814
At the period-end:							
Total assets	¥ 977,766	¥ 1,099,252	¥ 1,058,832	¥ 1,040,390	¥ 1,033,311	¥ 1,083,450	¥ 848,772
Interest-bearing debt	187,586	202,098	160,844	194,457	220,376	255,350	177,195
Net assets	522,853	595,211	570,192	548,746	504,675	476,176	382,840
Number of outstanding shares (thousands)	427,566	427,569	427,572	427,576	427,579	427,601	427,657
Number of shareholders	27,323	28,053	29,148	25,302	28,582	26,287	29,308
Number of employees	29,805	30,304	30,390	28,754	29,157	30,278	26,850
Per share of common stock (yen):							
Net income (loss):							
Basic	¥ (88.05)	¥ 73.37	¥ 98.72	¥ 118.32	¥ 161.50	¥ 165.02	¥ 116.79
Cash dividends	26.00	34.00	26.00	26.00	26.00	23.00	17.00
Net assets	1,216.92	1,375.16	1,316.08	1,254.89	1,159.70	1,090.64	870.36
Key financial indicators:							
Operating income margin (%)	(4.4)	4.1	4.7	7.5	9.8	8.4	6.6
Return on Sales (ROS) (%)	(4.3)	3.1	4.3	5.6	6.8	7.0	6.0
Return on Assets (ROA) (%)	(3.9)	4.0	4.5	6.4	9.1	8.9	8.0
Return on Equity (ROE) (%)	(6.8)	5.5	7.7	9.8	14.4	16.8	15.6
Shareholders' equity ratio (%)	53.2	53.5	53.1	51.6	48.0	43.0	43.9
Debt/equity ratio (%)	36.1	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, 2020, is included in this annual report solely for the convenience of readers outside Japan. The translation has been made at the rates of ¥108.83 = $1 and ¥119.55 = €1, the approximate exchange rates as of March 31, 2020.
3. Diluted net income per share is not provided for the periods presented as there were no outstanding common stock with a dilutive effect during the periods presented and also there were no outstanding potential common shockduring the periods ended March 31, 2017, 2018, 2019, and 2020.
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.

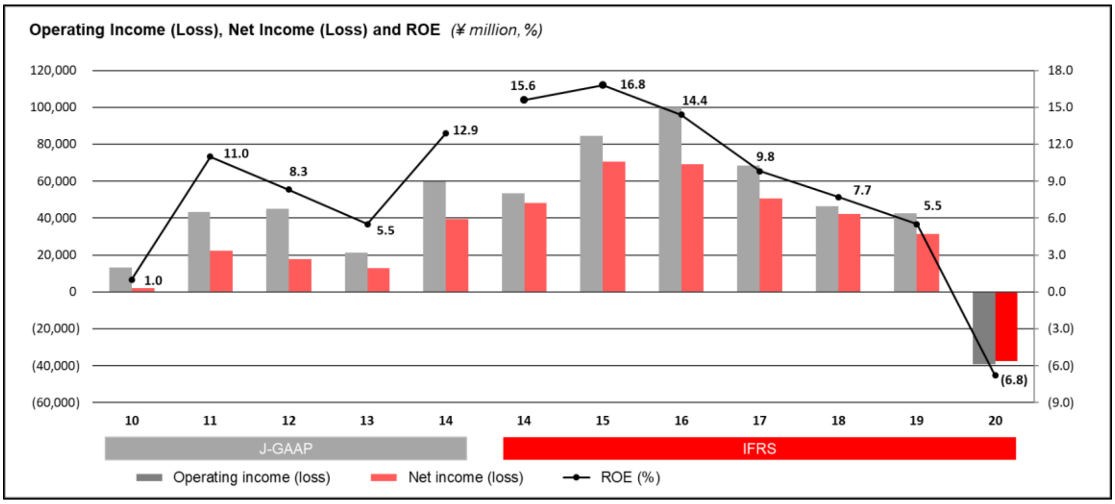
Eleven-Year Summary

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	
	2020	2020
Results for the period:		
Revenues	$ 8,098,888	€ 7,372,664
Cost of sales	(6,946,127)	(6,323,271)
Selling, general and administrative expenses	(1,020,601)	(929,084)
Other income	79,013	71,928
Other expenses	(570,688)	(519,515)
Operating income	(359,515)	(327,277)
Income (loss) before income taxes and non-controlling interests	(373,188)	(339,724)
Net income (loss) attributable to shareholders of the parent company	(345,934)	(314,914)
Cash flows for the period:		
Cash flows from operating activities	973,610	886,307
Cash flows from investing activities	(518,405)	(471,920)
Free cash flows	455,205	414,387
Growth initiative costs:		
Capital expenditures	487,173	443,488
Depreciation and amortization	507,029	461,564
Research and development	146,265	133,149
At the period-end:		
Total assets	$ 8,984,343	€ 8,178,720
Interest-bearing debt	1,723,661	1,569,101
Net assets	4,804,309	4,373,509
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	$ (0.81)	€ (0.74)
Cash dividends	0.24	0.22
Net assets	11.18	10.18
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	2010
Results for the period:					
Net sales	¥ 807,952	¥ 535,779	¥ 556,914	¥ 520,186	¥ 431,683
Cost of sales	(638,872)	(440,684)	(438,930)	(406,282)	(352,382)
Selling, general and administrative expenses	(109,544)	(74,016)	(73,117)	(70,761)	(65,952)
Operating income	59,536	21,079	44,867	43,143	13,349
Income (loss) before income taxes and minority interests	50,796	17,230	36,414	36,061	5,727
Net income (loss) attributable to shareholders of the parent company	39,417	12,955	17,886	22,204	1,937
Cash flows for the period:					
Cash flows from operating activities	100,557	62,975	3,008	42,688	57,012
Cash flows from investing activities	(30,906)	(28,718)	(21,769)	(24,607)	(21,495)
Free cash flows	69,651	34,257	(18,761)	18,081	35,517
Growth initiative costs:					
Capital expenditures	31,987	26,688	24,300	20,369	16,485
Depreciation and amortization	33,639	24,219	27,544	28,389	30,494
Research and development	16,814	11,076	12,153	12,224	10,626
At the period-end:					
Total assets	¥ 840,742	¥ 541,286	¥ 579,862	¥ 529,869	¥ 517,984
Interest-bearing debt	175,958	145,935	169,232	149,822	170,664
Net assets	373,198	259,865	240,395	228,010	212,783
Number of outstanding shares (thousands)	427,631	365,419	352,429	352,442	352,472
Number of shareholders	29,308	16,930	12,417	12,711	13,885
Number of employees	26,850	17,308	18,056	18,008	17,806
Per share of common stock (yen):					
Net income (loss):					
Basic	¥ 95.65	¥ 36.20	¥ 50.75	¥ 5.50	¥ 5.50
Cash dividends	17.00	14.00	12.00	12.00	12.00
Net assets	848.73	684.96	625.04	591.51	548.76
Key financial indicators:					
Operating income margin (%)	7.4	3.9	8.1	8.3	3.1
Return on Sales (ROS) (%)	4.9	2.4	3.2	4.3	0.4
Return on Assets (ROA) (%)	7.4	3.1	6.6	6.9	1.1
Return on Equity (ROE) (%)	12.9	5.5	8.3	11.0	1.0
Shareholders' equity ratio (%)	43.2	46.2	38.0	39.3	37.3
Debt/equity ratio (%)	48.5	58.3	76.8	71.9	88.2

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. 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).



Operating Income (Loss), Net Income (Loss) and ROE (¥ million, %)
120,000
100,000
80,000
60,000
40,000
20,000
0
(20,000)
(40,000)
(60,000)
18.0
15.0
12.0
9.0
6.0
3.0
0.0
(3.0)
(6.0)
(9.0)
1.0
11.0
8.3
5.5
12.9
15.6
16.8
14.4
9.8
7.7
5.5
(6.8)
10
11
12
13
14
14
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16
17
18
19
20
J-GAAP
IFRS
Operating income (loss)
Net income (loss)
ROE (%)

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

The global economy during the year ended March 31, 2020, continued to grow modestly during the nine months ended December 31, 2019. However, the global outbreak of the novel coronavirus disease (COVID-19, "COVID-19"), which was first detected in China, and the measures against it, increasingly taken by countries and regions around the world such as lockdowns, started to have a visible impact on the real global economy in the three month ended March 31, 2020. In China, the effects of the COVID-19 outbreak significantly reduced industrial production and individual consumption, and consequently weakened economic growth, which had already been slowing down due to the trade conflict with the United States and slack domestic demand. Weak economies in Europe and Asian emerging countries also slowed down significantly due to the restrictions on economic activities as a result of the spread of COVID-19. In the United States, although the employment situation and individual consumption had continued to improve during the nine months ended December 31, 2019, there was a sharp fall in business confidence towards March 31, 2020, due to the outbreak. Amid such circumstances, the Japanese economy faced a rapidly expanding economic stagnation due to the impact of COVID-19, on top of the already decreased industrial production and export volume.

Among the industries in which the Group operates, sales of new vehicles dropped mainly in China and global sales also decreased as a result of a fall in Japan and the United States. Both domestic and international demand for industrial machinery was weak. Housing starts increased in the United States, but declined in Japan. The electronics field showed signs of improvement in smartphone shipments at the end of 2019, but shipments dropped significantly in the three months ended March 31, 2020.

Business Overview

Under the business circumstances described above, the Group's operating results for the fiscal year ended March 31, 2020, were as follows.

The COVID-19 outbreak had a limited impact on the results for the fiscal year ended March 31, 2020, despite a decline in demand in the automotive products business in China and North America, and reduced operation of related manufacturing bases.

Revenues decreased by 13.9% year on year to ¥881,402 million mainly due to a decrease in demand primarily for the Group's mainstays. Other significant reasons for the revenue decline are a fall in raw material prices (the sliding-scale raw material price system) and structural reform measures in the Functional Components and Equipment segment.

Adjusted operating income(*) for the year ended March 31, 2020, decreased by ¥37,044 million year on year to ¥14,383 million. This was attributable to a major production adjustment implemented in order to address a decrease in demand and to optimize inventories as part of measures to improve operational efficiency, in addition to a slowdown in the electronics- and semiconductor-related markets, a decline in demand for various manufacturing equipment and industrial machinery, and a decrease in sales of new vehicles, despite measures including a reduction in fixed costs.

Operating income for the year ended March 31, 2020, decreased by ¥81,568 million year on year, resulting in an operating loss of ¥39,126 million. This was attributable to the recording of impairment losses of ¥42,581 million in other expenses for the magnetic materials and applications business as a whole in the three month ended September 30, 2019. This was mainly due to the changes in the operating environment of the rare earth magnet business and the subsequent review of the future profitability of the magnetic materials and applications business. Income before income taxes decreased by ¥83,653 million year on year to a loss before income taxes of ¥40,614 million. Net income attributable to shareholders of the parent company decreased by ¥69,018 million from the same period of the previous year to a net loss attributable to shareholders of the parent company of ¥37,648 million.

The Group introduced business management based on Return on Invested Capital (ROIC) with the aim of improving cash flow and capital efficiency. As one of the measures to address these key management challenges in the fiscal year 2021 Medium-term Management Plan, the Group has reduced the level of equity investment mainly by shortening the Cash Conversion Cycle (CCC) to reduce the risk of fluctuations in raw material prices. The Group has also cut capital expenditure through carefully selected investment in core business areas. As a result, free cash flow for the fiscal year ended March 31, 2020, improved by ¥79,205 million from the same period last year.

(*) In order to give a true view of the condition of the whole Group's business without the effects of business restructuring, the Group shows "adjusted operating income," which is the operating income (loss) recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

Business Results by Segment

Business Segment Information

The results by business segment are as follows. Note that revenues for each segment include intersegment revenues. There were no significant changes to the businesses of the Group during the fiscal year ended March 31, 2020.

The Company transferred soft magnetic components and materials from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and changed the segment name from the Magnetic Materials and Applications segment to the Magnetic Materials and Applications / Power Electronics Materials segment as of April 1, 2019. Due to this change, the results of soft magnetic components and materials for the fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019), have been recorded under the Magnetic Materials and Applications / Power Electronics Materials segment.

Specialty Steel Products

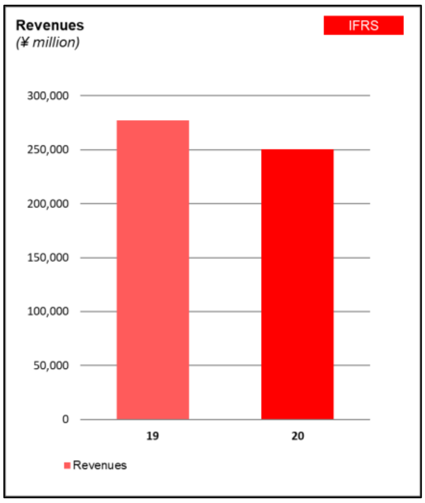
Revenues across the entire Specialty Steel Products segment for the fiscal year ended March 31, 2020, were ¥250,643 million, a decrease of 9.5% compared with those of the fiscal year ended March 31, 2019.

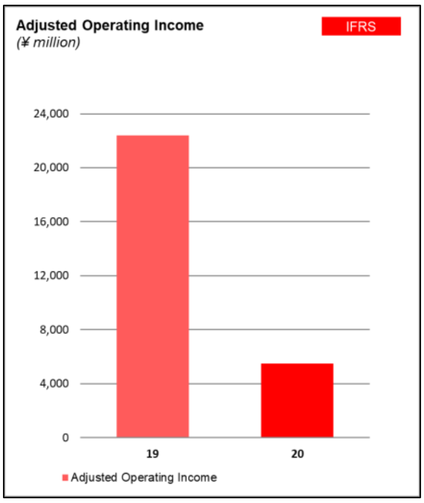
Breaking down the revenues by business, sales of molds and tool steel, among the business of tool steel & roll, decreased year on year, due to a decrease in demand in international markets especially in China and inventory adjustments including in a supply chain in Japan. Sales of rolls increased year on year as a result of a rise in demand in Japan. Sales of injection molding machine parts decreased year on year due to a sharp decline in demand in the three months ended December 31, 2019.

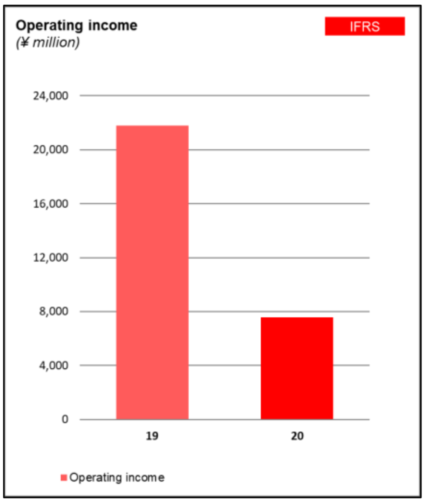
Among the business of industrial, aircraft & energy materials, sales of industrial materials decreased year on year, on the back of a decline in demand for products related to automobiles. Sales of aircraft- and energy-related materials increased year on year due to an increase in demand for both materials.

Overall sales of alloys for electronic products decreased year on year, due to a decline in demand for semiconductor package components, although sales of organic EL panel-related components grew and sales of clad metals for smartphones and batteries increased.

Adjusted operating income decreased by ¥16,936 million to ¥5,474 million compared with the year ended March 31, 2019, primarily due to a decline in demand for the Company's mainstays including molds and tool steel and industrial materials, a fall in raw material prices, and a reduction of work in process reflecting the decreased market demand. Operating income of the segment decreased by ¥14,217 million year on year to ¥7,585 million.







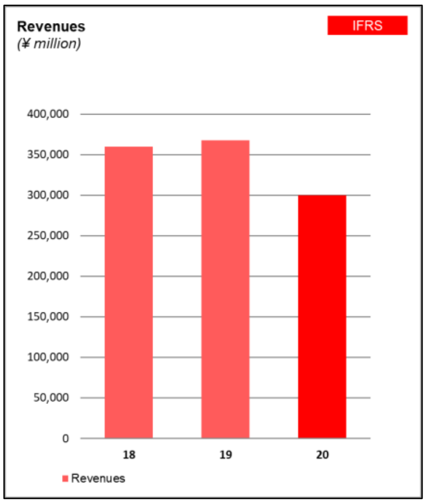
Functional Components and Equipment

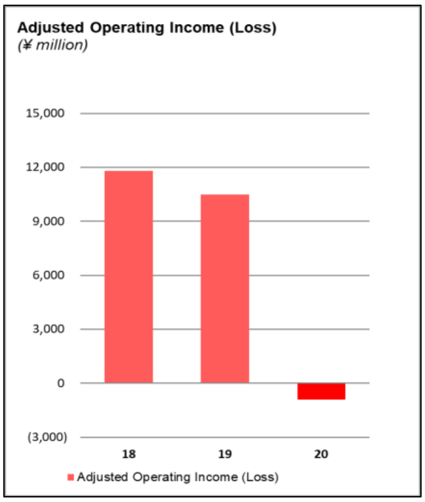
Revenues across the entire Functional Components and Equipment segment for the fiscal year ended March 31, 2020, were ¥299,703 million, a decrease of 18.5% compared with those of the fiscal year ended March 31, 2019.

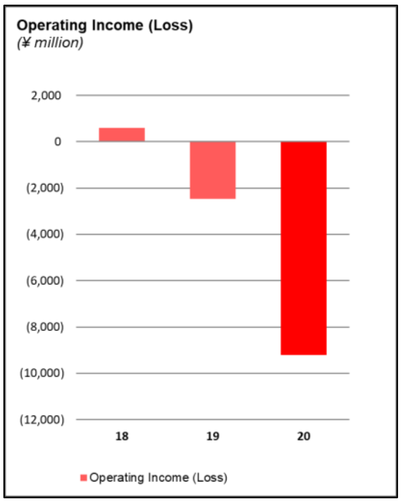
Breaking down the revenues by business, sales of casting components for automobiles in North America decreased year on year. This was attributable to the fact that demand for light trucks and passenger vehicles continued to decrease and that demand for casting components for commercial vehicles, and construction and agricultural machinery, which remained relatively robust during the six months ended September 30, 2019, has declined since the three months ended December 31, 2019. The decrease was also attributable to the COVID-19 outbreak at the end of the fiscal year. Meanwhile in Asia, sales decreased year on year driven by a fall in demand for casting components for automobiles. Sales of heat-resistant exhaust casting components decreased year on year, mainly reflecting a decrease in sales of new vehicles and careful selection of orders in order to improve earnings. The Company has decided to withdraw the aluminum wheels business, and therefore, in March 2019, the Company sold a consolidated subsidiary manufacturing aluminum wheels in the United States, and the termination of production in Japan is also progressing as planned towards the end of September 2020. As a result, overall sales of casting components for automobiles decreased year on year.

Among piping components, sales of pipe fittings to both domestic and international markets in the year ended March 31, 2020, remained unchanged year on year. Sales of semiconductor manufacturing equipment decreased year on year due to the delay of some capital investment projects. As a result, overall sales of piping components decreased year on year.

Adjusted operating income decreased by ¥11,399 million year on year, resulting in an adjusted operating loss of ¥910 million. This was primarily due to the suspension of the Company's major customers' operations at fiscal year end amid the COVID-19 outbreak, in addition to a decline in demand in the automotive casting components business in North America, which is the segment's core business, and ongoing sluggish sales of semiconductor manufacturing equipment. Operating loss was ¥9,222 million, a decrease of ¥6,759 million from the same period last year due to mainly recorded impairment losses .







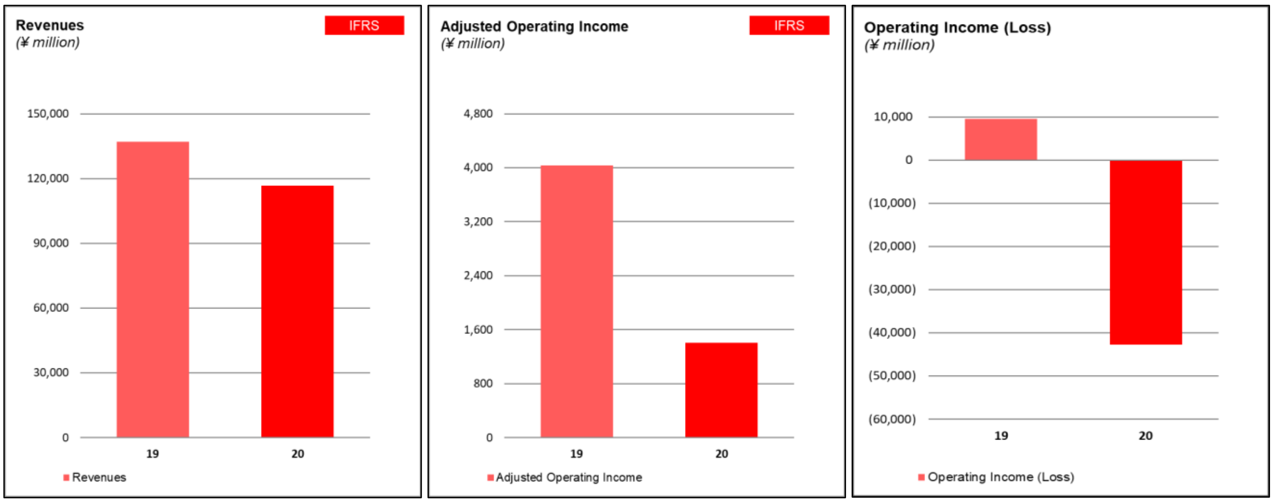
Magnetic Materials and Applications / Power Electronics Materials

Revenues in the Magnetic Materials and Applications segment for the fiscal year ended March 31, 2020, were ¥116,760 million, a decrease of 14.8% compared with those of the fiscal year ended March 31, 2019.

Breaking down the revenues by business, sales of rare earth magnets among magnetic materials and applications decreased year on year. This was due to a slowdown in the electronics- and semiconductor-related markets and a significant decline in demand for various manufacturing equipment and industrial machinery in the industrial equipment-related business. The decline in demand for automotive electronic components also contributed to the decrease in sales. Sales of ferrite magnets decreased year on year due to a decrease in demand for automotive electronic components. As a result, overall sales of magnetic materials and applications decreased year on year.

Among power electronics materials, sales of soft magnetic materials and their applied products decreased year on year due to a decline in demand for amorphous metals for transformers and some components for consumer equipment, despite an increase in demand for the use of electronic vehicles. Meanwhile, sales of ceramic components increased year on year due to an increase in demand mainly for the use of automotive electronic components and medical and security-related devices. As a result, sales of power electronics materials as a whole remained at the same level as the same period last year.

Adjusted operating income decreased by ¥2,628 million year on year to ¥1,405 million, due to a decrease in demand for magnetic materials and applications. Operating income for the year ended March 31, 2020, decreased by ¥52,226 million year on year, resulting in an operating loss of ¥42,750 million. This was attributable to the recording of impairment losses of ¥42,581 million in other expenses for the magnetic materials and applications business as a whole in the three months ended September 30, 2019. This was mainly due to the changes in the operating environment of the rare earth magnet business and the subsequent review of the future profitability of the magnetic materials and applications business.



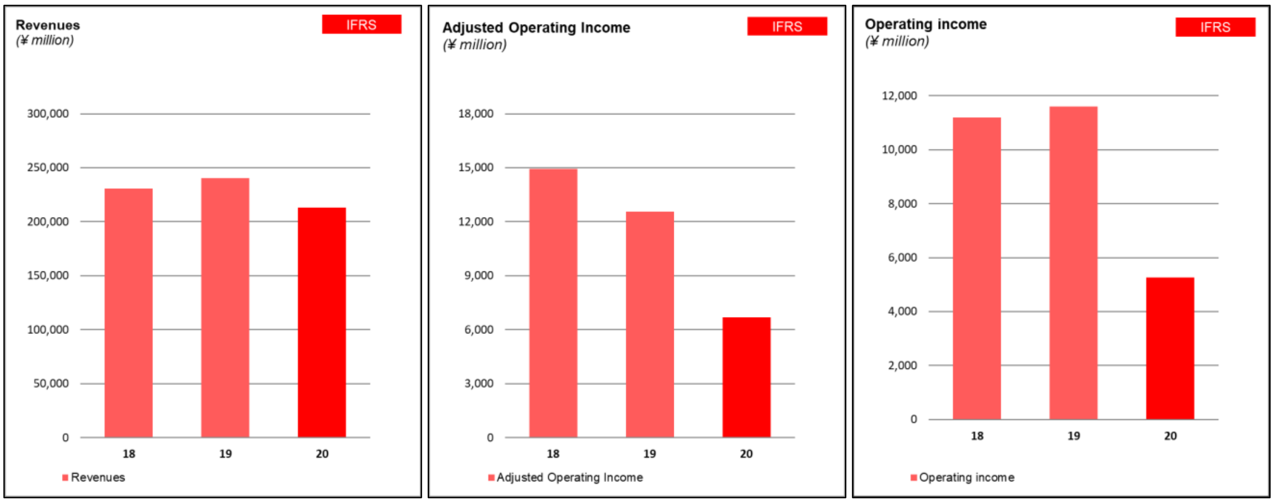
Wires, Cables, and Related Products

Revenues in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2020, were ¥213,329 million, a decrease of 11.2% compared with those of the fiscal year ended March 31, 2019.

Breaking down the revenues by business, sales of medical use products increased year on year due to an increase in demand for both tubes and cables. Sales of wires and cables for rolling stock decreased year on year as large-scale projects entered the offseason. Sales of magnet wires decreased year on year due to a decrease in their demand for both automotive and industrial applications. Sales of electronic wires also decreased year on year due to a decline in their demand mainly for FA / robots. As a result, overall sales of wires, cables, and related products decreased year on year.

Sales of automotive components decreased year on year, reflecting a decline in demand for automotive electronic components and brake hoses due to a decrease in global new vehicle sales.

Adjusted operating income decreased by ¥5,879 million to ¥6,669 million, as compared with the year ended March 31, 2019, led in part by a decline in demand. Operating income of the segment decreased by ¥6,341 million year on year to ¥5,257 million for the same period.



Financial Conditions and Liquidity

Financial Position

The analysis of changes in the Group's consolidated statement of financial position as of March 31, 2020, is as follows:

Total assets were ¥977,766 million, a decrease of ¥121,486 million compared with March 31, 2019. Current assets were ¥406,119 million, a decrease of ¥74,212 million compared with March 31, 2019. This was mainly due to decreases of ¥37,574 million and ¥34,880 million in trade receivables and inventories, respectively. Non-current assets were ¥571,647 million, a decrease of ¥47,274 million compared with March 31, 2019. Property, plant and equipment decreased by ¥21,065 million, which was mainly attributable to an increase of ¥15,061 million in right-of-use assets arising from the application of IFRS 16 *Leases* and a decrease due to impairment losses of ¥22,479 million for the magnetic materials and applications business. In addition, goodwill and intangible assets decreased by ¥25,384 million, which resulted primarily from impairment losses of ¥20,102 million for the magnetic materials and applications business.

Total liabilities were ¥454,913 million, a decrease of ¥49,128 million compared with March 31, 2019. A decrease of ¥18,716 million in the current portion of long-term debt and long-term debt was mainly attributable to the year-on-year reduction of ¥33,671 million in these debts, partially offset by an increase of ¥14,955 million in lease liabilities due to the adoption of IFRS 16 *Leases*. In additon, trade payables decreased by ¥28,611 million. Total equity was ¥522,853 million, a decrease of ¥72,358 million compared with March 31, 2019. This was mainly attributable to decreases in retained earnings of ¥51,066 million and accumulated other comprehensive income of ¥16,956 million.

Cash Flows

Cash and cash equivalents as of March 31, 2020, were ¥42,353 million, an increase of ¥1,255 million from March 31, 2019, as a result of cash provided by operating activities exceeding net cash used in investing and financing activities. The analysis of cash flows for each category as of March 31, 2020, is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥105,958 million. This was mainly attributable to the net effect of net loss of ¥39,538 million, depreciation and amortization of ¥55,180 million, impairment losses of ¥49,391 million, and a decrease of ¥38,879 million in working capital such as inventories.

<Cash Flows from Investing Activities>

Net cash used in investing activities was ¥56,418 million, which was mainly attributable to payment of ¥59,520 million for the purchase of property, plant and equipment.

<Cash Flows from Financing Activities>

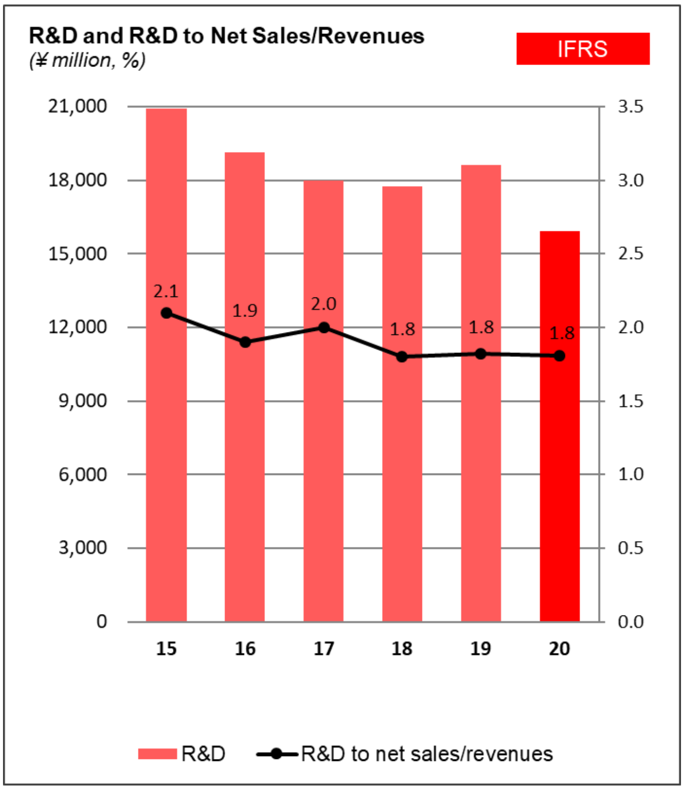
Net cash used in financing activities was ¥45,735 million. This was mainly attributable to the repayment of long-term debts of ¥37,488 million and dividends paid to shareholders of ¥12,849 million.

Research and Development (R&D) Activities

The Group continues to invest in cutting-edge material R&D areas to achieve sustainable growth and contribute to the society. Further, the Group strives to shorten the R&D period by leveraging digital technologies, such as AI and materials informatics.

For the fiscal year ended March 31, 2020, the Group invested ¥15,918 million in R&D.

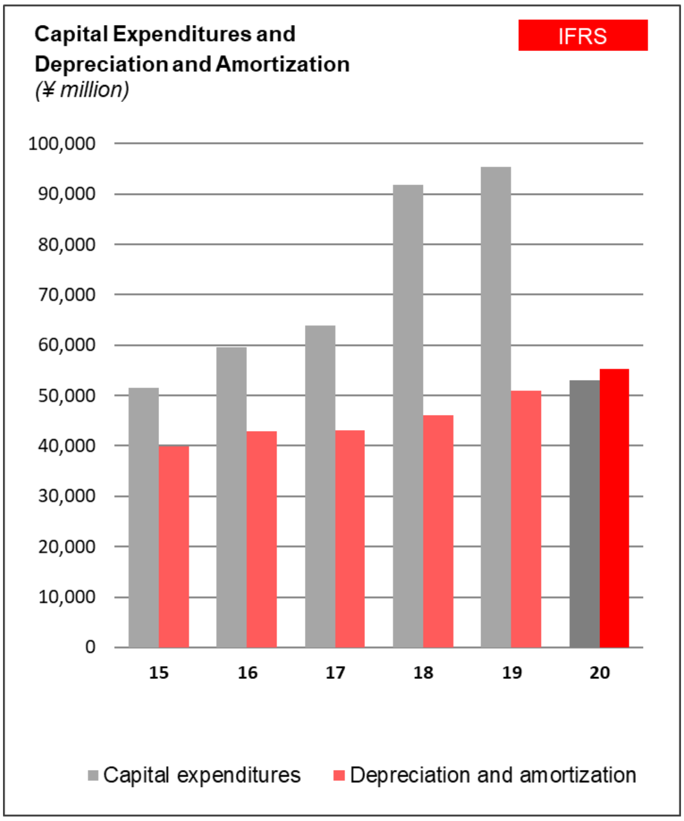
Breaking down R&D expenses by segment, the Group allocated ¥4,525 million for the Specialty Steel Products segment, ¥3,317 million for the Functional Components and Equipment segment, ¥3,201 million for the Magnetic Materials and Applications /Power Electronics Materials segment, and ¥4,875 million for the Wires, Cables, and Related Products segment.



R&D by Business Segment

	Millions of yen	
Years ended March 31	**2020**	2019
Specialty Steel Products	**¥ 4,525**	**¥ 5,501**
Functional Components and Equipment	**3,317**	**3,589**
Magnetic Materials and Applications / Power Electronics Materials	**3,201**	**4,193**
Wires, Cables, and Related Products	**4,875**	**5,321**
Total	**¥ 15,918**	**¥ 18,604**
Consolidated revenues	**¥ 881,402**	**¥ 1,023,421**
R&D to revenues (%)	**1.8%**	**1.8%**

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.

For the fiscal year ended March 31, 2020, capital expenditures were ¥53,019 million, , and amounts invested by business segment are as follows:

In the Specialty Steel Products segment, ¥19,140 million was invested to build production systems for alloys for electronic material products and industrial equipment sectors in Japan. In the Functional Components and Equipment segment, ¥14,813 million was invested to streamline and update production facilities for both overseas and in Japan. In the Magnetic Materials and Applications /Power Electronics Materials segment, ¥7,613 million was invested to build production lines for power electronics products in Japan. In the Wires, Cables, and Related Products segment, ¥9,874 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 above expenditures were covered by own funds and funds raised through the issuance of corporate bonds.

For the fiscal year ended March 31, 2020, there were no significant disposals or sales of facilities.

For the fiscal year ending March 31, 2021, management plans to allocate ¥33,830 million 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 Functional Components and Equipment segment will enhance production capacity and production efficiency both in Japan and overseas.The Magnetic Materials and Applications / Power Electronics Materials segment will enhance production capacities in the field power electronics materials both in Japan and 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.

Capital Expenditures by Business Segment

	Millions of yen	
Years ended March 31	**2020**	2019
Specialty Steel Products	**¥ 19,140**	¥ 34,552
Functional Components and Equipment	**14,813**	19,551
Magnetic Materials and Applications / Power Electronics Materials	**7,613**	25,475
Wires, Cables, and Related Products	**9,874**	12,879
Others	**156**	508
Adjustments	**1,423**	2,424
Total	**¥ 53,019**	¥ 95,389
Operating cash flows	**¥ 105,958**	¥ 66,582
CAPEX to operating cash flow ratio (times)	**0.5**	1.43

Depreciation and Amortization by Business Segment

	Millions of yen	
Years ended March 31	**2020**	2019
Specialty Steel Products	**¥ 16,715**	¥ 14,091
Functional Components and Equipment	**17,166**	16,501
Magnetic Materials and Applications / Power Electronics Materials	**9,281**	10,821
Wires, Cables, and Related Products	**8,300**	7,157
Others	**453**	325
Adjustments	**3,265**	2,006
Total	**¥ 55,180**	¥ 50,901

As of April 1, 2019, the Company transferred soft magnetic components and materials from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and changed the segment name from the Magnetic Materials and Applications segment to the Magnetic Materials and Applications / Power Electronics Materials segment. Accordingly, the results of soft magnetic components and materials for the fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019), have been recorded under the Magnetic Materials and Applications / Power Electronics Materials segment.

Outlook

For Performance Outlook for the fiscal year ending March 31, 2021, and Management Strategies for the Future, refer to the Integrated Report.

Business Risk

For Business Risks for the fiscal year ending March 31, 2021, refer to the Integrated Report.

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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, 2020	As of March 31, 2019	As of March 31, 2020
Assets				
Current assets				
Cash and cash equivalents		¥ 42,353	¥ 41,098	$ 389,167
Trade receivables	6	157,732	195,306	1,449,343
Inventories	7	179,925	214,805	1,653,267
Other current assets	24	26,109	29,122	239,906
Total current assets		406,119	480,331	3,731,682
Non-current assets				
Investments accounted for using the equity method	8	28,354	28,563	260,535
Investments in securities and other financial assets	24	13,234	19,978	121,602
Property, plant and equipment	3,9,11	381,095	402,160	3,501,746
Goodwill and intangible assets	10	118,174	143,558	1,085,859
Deferred tax assets	12	17,816	9,652	163,705
Other non-current assets		12,974	15,010	119,213
Total non-current assets		571,647	618,921	5,252,660
Total assets		¥ 977,766	¥ 1,099,252	$ 8,984,343
Liabilities				
Current liabilities				
Short-term debt	24	¥ 53,048	¥ 48,844	$ 487,439
Current portion of long-term debt	3,24	51,253	34,268	470,946
Other financial liabilities	24	26,642	37,730	244,804
Trade payables	13, 24	126,640	155,251	1,163,650
Accrued expenses		35,042	38,018	321,988
Contract liabilities		640	534	5,881
Other current liabilities	14	3,934	2,739	36,148
Total current liabilities		297,199	317,384	2,730,855
Non-current liabilities				
Long-term debt	3,24	83,285	118,986	765,276
Other financial liabilities	24	978	923	8,986
Retirement and severance benefits	15	67,560	58,124	620,785
Deferred tax liabilities	12	2,420	4,964	22,237
Other non-current liabilities	14	3,471	3,660	31,894
Total non-current liabilities		157,714	186,657	1,449,178
Total liabilities		454,913	504,041	4,180,033
Equity				
Equity attributable to shareholders of the parent company				
Common stock	16	26,284	26,284	241,514
Capital surplus	16	115,405	115,045	1,060,415
Retained earnings	16,18	374,820	425,886	3,444,087
Accumulated other comprehensive income	17	4,969	21,925	45,658
Treasury stock, at cost	16	(1,165)	(1,161)	(10,705)
Total equity attributable to shareholders of the parent company		520,313	587,979	4,780,970
Non-controlling interests		2,540	7,232	23,339
Total equity		522,853	595,211	4,804,309
Total liabilities and equity		¥ 977,766	¥ 1,099,252	$ 8,984,343

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, 2020	For the year ended March 31, 2019	For the year ended March 31, 2020
Revenues	4, 19	¥ 881,402	¥ 1,023,421	$ 8,098,888
Cost of sales		(755,947)	(851,029)	(6,946,127)
Gross profit		125,455	172,392	1,152,761
Selling, general, and administrative expenses		(111,072)	(120,965)	(1,020,601)
Other income	20	8,599	10,667	79,013
Other expenses	20	(62,108)	(19,652)	(570,688)
Operating (loss) income		(39,126)	42,442	(359,515)
Interest income		456	514	4,190
Other financial income	21	122	846	1,121
Interest charges		(2,646)	(2,818)	(24,313)
Other financial expenses	21	(1,087)	(8)	(9,988)
Share of profits of investments accounted for using the equity method	8	1,667	2,063	15,317
(Loss) income before income taxes		(40,614)	43,039	(373,188)
Income (benefits) taxes	12	1,076	(11,796)	9,887
Net (loss) income		(39,538)	31,243	(363,301)
Net (loss) income attributable to:				
Shareholders of the parent company		(37,648)	31,370	(345,934)
Non-controlling interests		(1,890)	(127)	(17,367)
Net (loss) income		¥ (39,538)	¥ 31,243	$ (363,301)

	Note	Yen		U.S. dollars
		For the year ended March 31, 2020	For the year ended March 31, 2019	For the year ended March 31, 2020
Earnings per share attributable to shareholders of the parent company				
Basic	22	¥ (88.05)	¥ 73.37	$ (0.81)
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, 2020	For the year ended March 31, 2019	For the year ended March 31, 2020
Net (loss) income		¥ (39,538)	¥ 31,243	$ (363,301)
Other comprehensive (loss) 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		(573)	(363)	(5,265)
Remeasurements of defined benefit plans		(7,069)	1,013	(64,955)
Share of other comprehensive income of investments accounted for using the equity method	8	219	(1,127)	2,012
Total items not to be reclassified into net income		(7,423)	(477)	(68,207)
Items that can be reclassified into net income				
Foreign currency translation adjustments		(9,723)	5,800	(89,341)
Net change in fair value of cash flow hedges		(109)	(49)	(1,002)
Share of other comprehensive income of investments accounted for using the equity method	8	(11)	(95)	(101)
Total items that can be reclassified into net income		(9,843)	5,656	(90,444)
Total other comprehensive (loss) income	17	(17,266)	5,179	(158,651)
Comprehensive (loss) income		¥ (56,804)	¥ 36,422	$ (521,952)
Comprehensive (loss) income attributable to:				
Shareholders of the parent company		¥ (54,588)	¥ 36,562	$ (501,590)
Non-controlling interests		(2,216)	(140)	(20,362)
Comprehensive (loss) income		¥ (56,804)	¥ 36,422	$ (521,952)

See accompanying notes to the consolidated financial statements.

3) Consolidated Statement of Changes in Equity

	Note	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
		Millions of yen							
Balance at April 1, 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	18	–	–	(12,827)	–	–	(12,827)	–	(12,827)
Dividends to non-controlling interests		–	–	–	–	–	–	(146)	(146)
Acquisition of treasury stock	16	–	–	–	–	(3)	(3)	–	(3)
Sales of treasury stock	16	–	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
Cumulative effect of accounting change	3	–	–	(607)	–	–	(607)	–	(607)
Restated balance		26,284	115,045	425,279	21,925	(1,161)	587,372	7,232	594,604
Changes in equity									
Net loss		–	–	(37,648)	–	–	(37,648)	(1,890)	(39,538)
Other comprehensive income		–	–	–	(16,940)	–	(16,940)	(326)	(17,266)
Dividends to shareholders of the parent company	18	–	–	(12,827)	–	–	(12,827)	–	(12,827)
Dividends to non-controlling interests		–	–	–	–	–	–	(22)	(22)
Acquisition of treasury stock	16	–	–	–	–	(4)	(4)	–	(4)
Sales of treasury stock	16	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	360	–	–	–	360	(2,454)	(2,094)
Transfer to retained earnings		–	–	16	(16)	–	–	–	–
Total changes in equity		–	360	(50,459)	(16,956)	(4)	(67,059)	(4,692)	(71,751)
Balance at March 31, 2020		¥ 26,284	¥ 115,405	¥ 374,820	¥ 4,969	¥ (1,165)	¥ 520,313	¥ 2,540	¥ 522,853

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, 2019		$ 241,514	$ 1,057,107	$ 3,913,314	$ 201,461	$ (10,668)	$ 5,402,729	$ 66,452	$ 5,469,181
Cumulative effect of accounting change		–	–	(5,578)	–	–	(5,578)	–	(5,578)
Restated balance		241,514	1,057,107	3,907,737	201,461	(10,668)	5,397,152	66,452	5,463,604
Changes in equity									
Net loss		–	–	(345,934)	–	–	(345,934)	(17,367)	(363,301)
Other comprehensive income		–	–	–	(155,656)	–	(155,656)	(2,995)	(158,651)
Dividends to shareholders of the parent company	18	–	–	(117,863)	–	–	(117,863)	–	(117,863)
Dividends to non-controlling interests		–	–	–	–	–	–	(202)	(202)
Acquisition of treasury stock	16	–	–	–	–	(37)	(37)	–	(37)
Sales of treasury stock	16	–	0	–	–	0	0	–	0
Transactions with non-controlling interests		–	3,308	–	–	–	3,308	(22,549)	(19,241)
Transfer to retained earnings		–	–	147	(147)	–	–	–	–
Total changes in equity		–	3,308	(463,650)	(155,803)	(37)	(616,181)	(43,113)	(659,294)
Balance at March 31, 2020		$ 241,514	$ 1,060,415	$ 3,444,087	$ 45,658	$ (10,705)	$ 4,780,970	$ 23,339	$ 4,804,309

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, 2020	For the year ended March 31, 2019	For the year ended March 31, 2020
Cash flows from operating activities:				
Net (loss) income		¥ (39,538)	¥ 31,243	$ (363,301)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		55,180	50,901	507,029
Impairment losses		49,391	7,394	453,836
Share of profits of investments accounted for using the equity method		(1,667)	(2,063)	(15,317)
Financial expenses		3,155	1,466	28,990
(Gains) losses on sale of property, plant and equipment		(2,155)	3,721	(19,802)
Structural reform expenses		5,460	3,306	50,170
Net loss (gain) on business reorganization and others		43	(5,653)	395
Income taxes (benefits)		(1,076)	11,796	(9,887)
Decrease in trade receivables		33,673	18,294	309,409
(Decrease) increase in inventories		31,460	(20,378)	289,075
Decrease in accounts receivable - other		5,683	1,482	52,219
Decrease in trade payables		(26,254)	(16,177)	(241,239)
Decrease in accrued expenses		(2,359)	(2,800)	(21,676)
Increase in retirement and severance benefits		472	302	4,337
Other		(3,598)	(5,749)	(33,061)
Subtotal		107,870	77,085	991,179
Interest and dividends received		2,361	2,303	21,694
Interest paid		(2,678)	(2,712)	(24,607)
Payments for structural reforms		(1,998)	(66)	(18,359)
Income taxes refund (paid)		403	(10,028)	3,703
Net cash provided by operating activities		105,958	66,582	973,610
Cash flows from investing activities:				
Purchase of property, plant and equipment		(59,520)	(98,414)	(546,908)
Purchase of intangible assets		(1,328)	(1,476)	(12,203)
Proceeds from sales of property, plant and equipment		5,321	650	48,893
(Purchase of) proceeds from investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)		(115)	260	(1,057)
Proceeds from sales of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)		171	955	1,571
Other		(947)	1,778	(8,702)
Net cash used in investing activities		(56,418)	(96,247)	(518,405)

(Continued)

	Note	Millions of yen		Thousands of U.S. dollars
		For the year ended March 31, 2020	For the year ended March 31, 2019	For the year ended March 31, 2020
Cash flows from financing activities:				
Net increase in short-term debt	23	5,271	18,522	48,433
Proceeds from long-term debt	23	1,424	45,633	13,085
Repayment of long-term debt	23	(37,488)	(34,979)	(344,464)
Purchase of shares of consolidated subsidiaries from non-controlling interests		(2,089)	(1,362)	(19,195)
Dividends paid to shareholders	18	(12,827)	(12,827)	(117,863)
Dividends paid to non-controlling interests		(22)	(146)	(202)
Acquisition of common stock for treasury		(4)	(3)	(37)
Proceeds from sales of treasury stock		0	0	0
Net cash used in (provided by) financing activities		(45,735)	14,838	(420,243)
Effect of exchange rate changes on cash and cash equivalents		(2,550)	1,013	(23,431)
Net increase (decrease) in cash and cash equivalents		1,255	(13,814)	11,532
Cash and cash equivalents at the beginning of the year		41,098	54,912	377,635
Cash and cash equivalents at the end of the year		¥ 42,353	¥ 41,098	$ 389,167

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, Functional Components and Equipment, Magnetic Materials and Applications / Power Electronics Materials, 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 Mitsuaki Nishiyama, Chairperson, President and Chief Executive Officer, on June 23, 2020.

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, 2020, 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, 2020.

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 24. "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. (10) "Impairment of Non-Financial Assets"
- Note 3. (12) "Post-Employment Benefits" and Note 15. "Employee Benefits"
- Note 3. (13) "Provisions," Note 3. (14) "Contingencies," Note 14. "Provisions," and Note 27. "Commitments and Contingencies (Other Than Liabilities Recognized as Provisions)"
- Note 3. (16) "Income Taxes" and Note 12. "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 based on 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:

Financial assets measured at amortized cost

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.

FVTOCI financial assets

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*. 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
Right-of-use assets	2 to 50 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) Leases
(a) Lessee
The Company and certain subsidiaries use leased facilities, including buildings, machinery, and vehicles as lessees. The Group recognizes a right-of-use asset, a right to use the underlying asset, and expenses related to leases, and gains an liability, an obligation to make lease payments, and also recognizes lease expenses as depreciation charges for right-of-use assets and interest expenses on lease liabilities.

Lease payments for short-term leases with a lease term of 12 months or less are recognized in profit or loss on a straight-line basis over the lease term.

Right-of-use asset
The Group applies the cost method to measure the right-of-use asset, which is included in property, plant and equipment or intangible assets at cost at the commencement date of the lease less any accumulated depreciation and any accumulated impairment losses. The cost of right-of-use asset includes the amount of the initial measurement of the lease liability and the initial direct cost incurred by the lessee. The right-of-use asset is depreciated from the commencement date of the lease to the earlier of the end of the useful life of the underlying asset or the end of the lease term on a straight-line basis. Changes in the useful life or the lease term are accounted for on a prospective basis as a change in accounting estimate.

Lease liability
The lease liability is measured at the present value of lease payments that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate, and is included in the current portion of long-term debt or long-term debt. Interest expense on the lease liability in each period during the lease term is recognized in profit or loss over the lease term at a constant periodic rate of interest on the remaining balance of the lease liability, and is included in interest charges in the consolidated statement of income.

(b) Lessor

The Company and certain subsidiaries lease facilities, including buildings, machinery, and equipment as lessors. When substantially all the risks and rewards incidental to the ownership of items of property, plant and equipment are transferred to the lessee, such lease is classified as a finance lease with the derecognition of the underlying assets and the present value of the total amount of lease payments is used to recognize and measure the net investment in the lease.

If substantially all the risks and rewards incidental to the ownership remain with the lessor, it is classified as an operating lease, under which the underlying asset is continuously recognized and lease income is recognized over the lease term on a straight-line basis.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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 14. “Provisions.”

(14) 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 (13) "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.

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) 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 based on 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.

(20) Changes in Accounting Policies

From the beginning of the fiscal year ended March 31, 2020, the Group has adopted IFRS 16 *Leases*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. This standard introduces a single accounting model, under which lessees recognize all leases in the statement of consolidated financial position.

As a transition measure upon the adoption of IFRS 16, the Group recognized the cumulative effect of initially applying this standard as an adjustment to the beginning balance of retained earnings for the fiscal year ended March 31, 2020.

The leases held by the Group are mainly real estate leases. The effect of the adoption of IFRS 16 on the consolidated statement of financial position as of the beginning of the fiscal year ended March 31, 2020, is as follows: an increase of ¥16,693 million (U.S. $153,386 thousand) in assets mainly due to recognizing right-of-use assets; an increase of ¥17,300 million (U.S. $158,964 thousand) in liabilities mainly due to recognizing lease liabilities; and a decrease of ¥607 million (U.S. $5,578 thousand) in equity due to the adjustment to the beginning balance of retained earnings. Minor effect is recognized in the consolidated statement of income. Additionally, under IFRS 16, depreciation adjustments of right-of-use assets are included in cash flows from operating activities instead of the payment of operating lease expense, and the payment of lease liabilities is included in cash flows from financing activities in the consolidated statement of cash flows for the fiscal year ended March 31, 2020. This resulted in an increase in cash flows from operating activities and a decrease in cash flows from financing activities compared with those under the previous accounting standard.

The Group elects to use a practical expedient that permits an entity not to reassess whether existing contracts contain a lease at the date of initial application as defined under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease* in prior periods at the commencement date of applying IFRS 16. In addition, when IFRS 16 is applied to a lease that is classified as an operating lease under IAS 17, the following practical expedients are mainly elected:

・Leases for which the lease term ends within 12 months from the date of initial application are accounted for in the same way as for short-term leases.

・If a contract contains an option to extend or terminate the lease, a lessee uses hindsight in determining the lease term.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position at the beginning of the fiscal year ended March 31, 2020, is 1.53%.

The difference between minimum lease payments under non-cancelable operating leases to which IAS 17 is applied as of March 31, 2019, and lease liabilities recognized under IFRS 16 is ¥16,359 million (U.S. $150,317 thousand.) This is primarily due to the difference in periods of extension options and termination options included in the lease term under respective accounting standards.

(21) Standards Issued but not yet Effective

None of the standards and interpretations that were issued, amended, or revised before the approval date of the accompanying consolidated financial statements for the fiscal year ended March 31, 2020, have significant impact on the consolidated financial statements of the Group.

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 two-Business Division-based organization structure, which is composed by Advanced Metals Division and Advanced Components and Materials Division. Both of the business divisions prepare a comprehensive strategy and engage in business activities related to their products and services in both the domestic and overseas markets.

There are four business segments under these Divisions: the Specialty Steel Products segment and the Functional Components and Equipment segment comprise the Advanced Metals Division; and the Magnetic Materials and Applications / Power Electronics Materials segment, and Wire, Cables, and Related Products segment comprise the Advanced Components and Materials Division. The four segments represent the Group's reportable segments.

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

Reportable segments	Major products and services
Specialty Steel Products	<Tool Steel & Roll> · Molds and tool steel, rolls for steel mills, injection molding machine parts, structural ceramic products, and steel-frame joints for construction <Industrial, Aerospace & Energy Materials> · Automobile-related materials, razor and blade materials, precision cast components, and aircraft- and energy-related materials <Electronic Materials> · Display-related materials, semiconductor and other package materials, and battery-related materials
Functional Components and Equipment	<Automotive Casting> · HNM high-grade ductile cast iron products, cast iron products for transportation equipment, HERCUNITE heat-resistant exhaust casting components, and aluminum components <Piping Components> · Piping and infrastructure components (TM gourd brand pipe fittings, valves, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices, and sealed expansion tanks)
Magnetic Materials and Applications / Power Electronics Materials	<Magnetic Materials> · NEOMAX® rare-earth magnets, ferrite magnets, and other magnets and applied products <Power Electronics Materials> · Soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic material; and soft ferrite) and applied products, and ceramic components
Wires, Cables, and Related Products	<Electric Wire & Cable> · Industrial cables, electronic wires, electric equipment materials, cable assemblies, and industrial rubber products <Automotive Components> · Automotive electronic 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, 2020 and 2019:

For the year ended March 31, 2020

	Millions of yen								
	Reportable segment								
	Specialty Steel Products	Functional Components and Equipment	Magnetic Materials and Applications / Power Electronics Materials	Wires, Cables, and Related Products	Subtotal	Others	Total	Adjust-ments	Consolidated statement of income
Revenues									
External customers	¥ 250,489	¥ 299,703	¥ 116,749	¥ 212,936	¥ 879,877	¥ 1,525	¥ 881,402	¥ –	¥ 881,402
Intersegment transactions	154	–	11	393	558	1,846	2,404	(2,404)	–
Total revenues	250,643	299,703	116,760	213,329	880,435	3,371	883,806	(2,404)	881,402
Segment profit (loss)	7,585	(9,222)	(42,750)	5,257	(39,130)	510	(38,620)	(506)	(39,126)
Financial income	–	–	–	–	–	–	–	–	578
Financial expenses	–	–	–	–	–	–	–	–	(3,733)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	1,667
Income (loss) before income taxes	–	–	–	–	–	–	–	–	(40,614)
Segment assets	368,543	308,941	147,373	244,089	1,068,946	8,814	1,077,760	(99,994)	977,766
Other items:									
Depreciation and amortization	16,715	17,166	9,281	8,300	51,462	453	51,915	3,265	55,180
Capital expenditure	19,140	14,813	7,613	9,874	51,440	156	51,596	1,423	53,019
Impairment losses	1,403	4,231	42,581	674	48,889	–	48,889	290	49,179

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.

The Company transferred soft magnetic components and materials from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and changed the segment name from the Magnetic Materials and Applications segment to the Magnetic Materials and Applications / Power Electronics Materials segment as of April 1, 2019. Due to this change, the results of soft magnetic components and materials for the twelve months ended March 31, 2019 (April 1, 2018 to March 31, 2019), are recorded under the Magnetic Materials and Applications / Power Electronics Materials segment.

For the year ended March 31, 2019

	Millions of yen								
	Reportable segment								
	Specialty Steel Products	Functional Components and Equipment	Magnetic Materials and Applications / Power Electronics Materials	Wires, Cables, and Related Products	Subtotal	Others	Total	Adjust-ments	Consolidated statement of income
Revenues									
External customers	¥ 276,708	¥ 367,563	¥ 137,009	¥ 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	276,904	367,563	137,009	240,123	1,021,599	4,429	1,026,028	(2,607)	1,023,421
Segment profit (loss)	21,802	(2,463)	9,476	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	392,167	339,251	187,131	258,570	1,177,119	1,396	1,178,515	(79,263)	1,099,252
Other items:									
Depreciation and amortization	14,091	16,501	10,821	7,157	48,570	325	48,895	2,006	50,901
Capital expenditure	34,552	19,551	25,475	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, 2020

	Thousands of U.S. dollars								
	Reportable segment								
	Specialty Steel Products	Functional Components and Equipment	Magnetic Materials and Applications / Power Electronics Materials	Wires, Cables, and Related Products	Subtotal	Others	Total	Adjust -ments	Consolidated statement of income
Revenues									
External customers	$ 2,301,654	$ 2,753,864	$ 1,072,765	$ 1,956,593	$ 8,084,875	$ 14,013	$ 8,098,888	$ –	$ 8,098,888
Intersegment transactions	1,415	–	101	3,611	5,127	16,962	22,089	(22,089)	–
Total revenues	2,303,069	2,753,864	1,072,866	1,960,204	8,090,003	30,975	8,120,978	(22,089)	8,098,888
Segment profit (loss)	69,696	(84,738)	(392,814)	48,305	(359,552)	4,686	(354,865)	(4,649)	(359,515)
Financial income	–	–	–	–	–	–	–	–	5,311
Financial expenses	–	–	–	–	–	–	–	–	(34,301)
Share of profits of investments accounted for using the equity method	–	–	–	–	–	–	–	–	15,317
Income (loss) before income taxes	–	–	–	–	–	–	–	–	(373,188)
Segment assets	3,386,410	2,838,749	1,354,158	2,242,847	9,822,163	80,989	9,903,152	(918,809)	8,984,343
Other items:									
Depreciation and amortization	153,588	157,732	85,280	76,266	472,866	4,162	477,028	30,001	507,029
Capital expenditure	175,871	136,111	69,953	90,729	472,664	1,433	474,097	13,075	487,173
Impairment losses	12,892	38,877	391,262	6,193	449,224	–	449,224	2,665	451,888

Other Related Information

For the year ended March 31, 2020

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
¥ 405,410	¥ 245,349	¥ 166,136	¥ 44,542	¥ 19,965	¥ 881,402

Thousands of U.S. dollars					
Japan	North America	Asia	Europe	Other areas	Total
$ 3,725,168	$ 2,254,424	$ 1,526,564	$ 409,281	$ 183,451	$ 8,098,888

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 ¥225,143 million (U.S. $2,068,759 thousand) and ¥63,380 million (U.S. $582,376 thousand), respectively.

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

Millions of yen					
Japan	North America	Asia	Europe	Other areas	Total
¥ 320,935	¥ 170,084	¥ 47,557	¥ 243	¥ 3,071	¥ 541,890

Thousands of U.S. dollars					
Japan	North America	Asia	Europe	Other areas	Total
$ 2,948,957	$ 1,562,841	$ 436,984	$ 2,233	$ 28,218	$ 4,979,234

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 ¥170,084 million (U.S. $1,562,841 thousand).

3. Significant customer information
   There was no concentration of revenues from a specific customer for the year ended March 31, 2020.

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

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 and ¥76,206 million, 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

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.

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

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 squeeze out.

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
Cash and cash equivalents	¥ 2,883
Trade receivables	12,025
Inventories	4,119
Other current assets	715
Non-current assets (except for intangible assets)	7,849
Intangible assets	215
Other non-current assets	1,201
Total assets	¥ 29,007
Current liabilities	13,533
Non-current liabilities	4,115
Total liabilities	¥ 17,648
Consideration paid (cash)	2,552
Fair value of pre-existing interests in the acquiree	162
Total consideration for the acquisition of shares	¥ 2,714
Non-controlling interests	2,935
Gain on bargain purchase	5,710

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 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 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, and thus, the Company recognized a gain on a step acquisition of ¥47 million 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, 2020 and 2019, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	March 31, 2019	March 31, 2020
Accounts receivable	¥ 138,345	¥ 168,398	$ 1,271,203
Notes receivable and electronically recorded monetary claims	19,572	27,219	179,840
Allowance for doubtful accounts	(185)	(311)	(1,700)
Total	¥ 157,732	¥ 195,306	$ 1,449,343

For credit risk control and fair value of trade receivables, see Note 24. "Financial Instruments and Other Related Information."

Note 7. Inventories

Inventories as of March 31, 2020 and 2019, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	March 31, 2019	March 31, 2020
Merchandise and finished products	¥ 64,189	¥ 73,524	$ 589,810
Work in process	68,024	86,330	625,048
Raw materials and supplies	47,712	54,951	438,409
Total	¥ 179,925	¥ 214,805	$ 1,653,267

The amount of inventories written down for the years ended March 31, 2020 and 2019, was ¥3,980 million (U.S. $36,571 thousand) and ¥4,300 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, 2020 and 2019, 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, 2020	March 31, 2019	March 31, 2020
Carrying amount of investments	¥ 28,119	¥ 28,519	$ 258,375

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income	¥ 1,476	¥ 1,932	$ 13,562
Other comprehensive income	208	(1,222)	1,911
Total comprehensive income	¥ 1,684	¥ 710	$ 15,474

(2) Investments in joint ventures

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	March 31, 2019	March 31, 2020
Carrying amount of investments	¥ 235	¥ 44	$ 2,159

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income	¥ 191	¥ 131	$ 1,755
Total comprehensive income	¥ 191	¥ 131	$ 1,755

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, 2020 and 2019:

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
Carrying amount							
At April 1, 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
Cumulative effect of accounting change	–	–	–	–	17,908	–	17,908
Restated balance	60,800	102,795	175,121	17,531	19,566	44,255	420,068
Additions	7	173	1,637	1,125	2,486	46,263	51,691
Disposals	(270)	(232)	(1,583)	(454)	(1,301)	(233)	(4,073)
Depreciation	–	(7,774)	(31,686)	(7,703)	(3,405)	–	(50,568)
Impairment losses	(555)	(6,784)	(20,017)	(1,506)	(363)	(1,963)	(31,188)
Effects of exchange rate changes	(293)	(1,198)	(2,472)	(275)	(545)	(535)	(5,318)
Transfer from construction in progress	21	10,275	49,777	6,851	54	(66,978)	–
Other	81	57	(529)	9	227	638	483
At March 31, 2020	¥ 59,791	¥ 97,312	¥ 170,248	¥ 15,578	¥ 16,719	¥ 21,447	¥ 381,095

	Thousands of U.S. dollars						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
Carrying amount							
At April 1, 2019	$ 558,669	$ 944,547	$ 1,609,124	$ 161,086	$ 15,235	$ 406,643	$ 3,695,305
Cumulative effect of accounting change	–	–	–	–	164,550	–	164,550
Restated balance	558,669	944,547	1,609,124	161,086	179,785	406,643	3,859,855
Additions	64	1,590	15,042	10,337	22,843	425,094	474,970
Disposals	(2,481)	(2,132)	(14,546)	(4,172)	(11,954)	(2,141)	(37,425)
Depreciation	–	(71,433)	(291,151)	(70,780)	(31,287)	–	(464,651)
Impairment losses	(5,100)	(62,336)	(183,929)	(13,838)	(3,335)	(18,037)	(286,575)
Effects of exchange rate changes	(2,692)	(11,008)	(22,714)	(2,527)	(5,008)	(4,916)	(48,865)
Transfer from construction in progress	193	94,413	457,383	62,951	496	(615,437)	–
Other	744	524	(4,861)	83	2,086	5,862	4,438
At March 31, 2020	$ 549,398	$ 894,165	$ 1,564,348	$ 143,141	$ 153,625	$ 197,069	$ 3,501,746

Notes: 1. Property, plant and equipment under construction are presented as construction in progress.

2. Right-of-use assets as of March 31, 2019, represent finance lease assets, which were included in “Other property, plant and equipment.”

Depreciation charges recognized for the years ended March 31, 2020 and 2019, are included in "Cost of sales" as well as "Selling, general and administrative expenses" of the consolidated statements of income. Impairment losses are included in "Other expenses" of the consolidated statements of income.

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
Acquisition cost							
At April 1, 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
At March 31, 2020	60,556	299,145	725,794	99,229	34,462	23,507	1,242,693
Accumulated depreciation and accumulated impairment losses							
At April 1, 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
At March 31, 2020	765	201,833	555,546	83,651	17,743	2,060	861,598

	Thousands of U.S. dollars						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
Acquisition cost							
At March 31, 2020	$ 556,427	$ 2,748,737	$ 6,669,062	$ 911,780	$ 316,659	$ 215,997	$ 11,418,662
Accumulated depreciation and accumulated impairment losses							
At March 31, 2020	$ 7,029	$ 1,854,571	$ 5,104,714	$ 768,639	$ 163,034	$ 18,929	$ 7,916,916

Note. Right-of-use assets as of March 31, 2019, represent finance lease assets and are included in "Other property, plant and equipment."

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

The Group recognized impairment losses of ¥31,188 million (U.S. 285,932 thousand) and ¥9,669 million on property, plant and equipment for the years ended March 31, 2020 and 2019, respectively.

Impairment losses recognized for the year ended March 31, 2020, mainly represent ¥42,581 million (U.S. $391,262 thousand) of impairment losses related to a decline in profitability in the magnetic materials and applications business due to changes in the operating environment of the rare earth magnet business under the Magnetic Materials and Applications / Power Electronics Materials segment. The impairment loss consists of ¥22,479 million (U.S. $206,552 thousand) recognized on property, plant and equipment (mainly machinery) and ¥20,102 million (U.S. $184,710 thousand) on goodwill and intangible assets. The carrying amounts of such assets were reduced to their recoverable amounts. The recoverable amount of an asset is determined based on the value in use, which is determined as ¥106,313 million (U.S. $976,872 thousand) as of September 30, 2019, when the impairment loss was recognized. The value in use is calculated by discounting future cash flows to the present value using a pretax weighted average capital cost of 9.6%.

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. 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 as of December 31, 2019, 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.

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, 2020 and 2019:

	Millions of yen				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Carrying amount					
At April 1, 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
Purchases	–	89	6	1,233	1,328
Amortization	–	(1,371)	(40)	(3,013)	(4,424)
Impairment losses	(20,033)	(134)	–	7	(20,160)
Disposals	–	(34)	–	(22)	(56)
Effects of exchange rate changes	(1,582)	(15)	(5)	(508)	(2,110)
Transfer from software in progress	–	938	–	(938)	–
Other	–	10	30	2	38
At March 31, 2020	¥ 90,534	¥ 2,546	¥ 156	¥ 24,938	¥ 118,174

	Thousands of U.S. dollars				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Carrying amount					
At April 1, 2019	$ 1,030,497	$ 28,145	$ 1,516	$ 258,945	$ 1,319,103
Purchases	–	818	55	11,330	12,203
Amortization	–	(12,598)	(368)	(27,685)	(40,651)
Impairment losses	(184,076)	(1,231)	–	64	(185,243)
Disposals	–	(312)	–	(202)	(515)
Effects of exchange rate changes	(14,536)	(138)	(46)	(4,668)	(19,388)
Transfer from software in progress	–	8,619	–	(8,619)	–
Other	–	92	276	18	349
At March 31, 2020	$ 831,885	$ 23,394	$ 1,433	$ 229,146	$ 1,085,859

Amortization recognized for the years ended March 31, 2020 and 2019, was included in “Cost of sales” as well as “Selling, general and administrative expenses” of the consolidated statements of income. Impairment losses are included in “Other expenses” in the consolidated statements of income.

	Millions of yen				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Acquisition cost					
At April 1, 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
At March 31, 2020	111,062	16,026	1,590	43,299	171,977
Accumulated amortization and accumulated impairment losses					
At April 1, 2018	¥ 495	¥ 12,162	¥ 1,206	¥ 12,283	¥ 26,146
At March 31, 2019	495	13,053	1,426	15,626	30,600
At March 31, 2020	20,528	13,480	1,434	18,361	53,803

	Thousands of U.S. dollars				
	Goodwill	Software for internal use	Software for sale	Other intangible assets	Total
Acquisition cost					
At March 31, 2020	$ 1,020,509	$ 147,257	$ 14,610	$ 397,859	$ 1,580,235
Accumulated amortization and accumulated impairment losses					
At March 31, 2020	$ 188,624	$ 123,863	$ 13,177	$ 168,713	$ 494,377

For the years ended March 31, 2020 and 2019, 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, 2020 and 2019, are ¥15,918 million (U.S. $146,265 thousand) and ¥18,604 million, respectively. R&D expenses are included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements 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 (¥67,125 million (U.S. $616,788 thousand) and ¥67,125 million as of March 31, 2020 and 2019, respectively) and that related to the magnetic materials and applications business in connection with the acquisition of additional shares in NEOMAX Co., Ltd. through a tender offer in 2006 (¥15,761 million (U.S. $144,822 thousand) and ¥35,781 million as of March 31, 2020 and 2019, 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 9.0% to 11.0%). 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.

Impairment losses recognized for goodwill and intangible assets for the year ended March 31, 2020, mainly represent ¥20,102 million (U.S. $184,710 thousand) of impairment losses related to a decline in profitability in the magnetic materials and applications business due to changes in the operating environment of the rare earth magnet business under the Magnetic Materials and Applications / Power Electronics Materials segment. See further discussion about the impairment loss at Note 9. “Property, Plant and Equipment.”

Note 11. Leases

(1) Lessee

The Company and certain subsidiaries use leased facilities and equipment, including buildings, machinery, and vehicles. The Group has adopted IFRS 16 *Leases* from the beginning of the fiscal year ended March 31, 2020.

The following table shows the carrying amount of right-of-use assets by class of underlying assets as of March 31, 2020.

	Millions of yen				
	Class of underlying assets				Total
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	
March 31, 2020	¥ 6,342	¥ 1,405	¥ 26	¥ 8,946	¥ 16,719

	Thousands of U.S. dollars				
	Class of underlying assets				Total
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	
March 31, 2020	$ 58,274	$ 12,910	$ 239	$ 82,202	$ 153,625

Expenses related to leases, and gains and losses with cash outflows for the fiscal year ended March 31, 2020 are as below.

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Depreciation charges for right-of-use assets:		
Buildings and structures	¥ 1,971	$ 18,111
Machinery and vehicles	495	4,548
Tools, furniture and fixtures	18	165
Land	921	8,463
Total	¥ 3,405	$ 31,287
Interest expenses on lease liabilities	266	2,444
Expenses on short-term leases	118	1,084
Income from subleasing right-of-use assets	(24)	(221)
Total expenses related to leases	3,765	34,595
Total cash outflows for leases	¥ 3,280	$ 30,139

Maturity analysis of lease liabilities as of March 31, 2020, is disclosed in Note 24. “Financial Instruments and Other Related Information.”

Additions to right-of-use assets for the year ended March 31, 2020, are disclosed in Note 9. “Property, Plant and Equipment.”

Many of the Group’s real estate leases contain options to extend the lease in the contractual terms in response to the risk of price fluctuations. The Group determines whether it is reasonably certain to exercise an option to extend the lease by comprehensively taking into account various factors, such as specifications of the leased property and business strategies.

(2) **Lessor**

Disclosure is omitted due to its immateriality.

Note 12. Deferred Taxes and Income Taxes

The following table shows major components of income taxes:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Income taxes			
Current tax expense	¥ 6,822	¥ 7,157	$ 62,685
Deferred tax expense			
Accruals and reversals of temporary differences	(14,482)	3,276	(133,070)
Changes in realizability of deferred tax assets	6,584	1,363	60,498
Total	¥ (1,076)	¥ 11,796	$ (9,887)

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 30.5% and 30.4% for the fiscal years ended March 31, 2020 and 2019, respectively.

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:

	2020	2019
Combined statutory income tax rate	30.5%	30.4%
Share of profits of investments accounted for using the equity method	1.3	(1.5)
Expenses not deductible for tax purposes	(0.3)	0.3
Gain on bargain purchase	–	(4.2)
Impairment on goodwill	(15.0)	–
Special tax credit for corporate taxes	2.5	(0.1)
Change in realizability of deferred tax assets	(16.2)	3.2
Difference between the statutory income tax rate of Japan and tax rates used in oversea subsidiaries	1.3	(2.1)
Other, net	(1.5)	1.4
Effective income tax rate	2.6%	27.4%

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

	Millions of yen				
	April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2020
Deferred tax assets					
Retirement and severance benefits	¥ 17,973	¥ (1,275)	¥ 2,400	¥ –	¥ 19,098
Accrued expenses	2,361	729	–	–	3,090
Depreciation and amortization	7,200	2,281	–	–	9,481
Net operating loss carry-forwards	393	(112)	–	–	281
Other	12,193	4,703	46	111	17,053
Total deferred tax assets	¥ 40,120	¥ 6,326	¥ 2,446	¥ 111	¥ 49,003
Deferred tax liabilities					
Tax purpose reduction entry	(4,289)	60	–	–	(4,229)
Investments in securities	(2,188)	79	253	–	(1,856)
Depreciation and amortization	(7,228)	(168)	–	–	(7,396)
Intangible assets acquired in business combinations	(6,147)	614	–	–	(5,533)
Other	(15,580)	987	–	–	(14,593)
Total deferred tax liabilities	¥ (35,432)	¥ 1,572	¥ 253	¥ –	¥ (33,607)
Net deferred tax assets	¥ 4,688	¥ 7,898	¥ 2,699	¥ 111	¥ 15,396

	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

	Thousands of U.S. dollars				
	April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Changes in the scope of consolidation	March 31, 2020
Deferred tax assets					
Retirement and severance benefits	$ 165,147	$ (11,716)	$ 22,053	–	$ 175,485
Accrued expenses	21,694	6,699	–	–	28,393
Depreciation and amortization	66,158	20,959	–	–	87,118
Net operating loss carry-forwards	3,611	(1,029)	–	–	2,582
Other	112,037	43,214	423	1,020	156,694
Total deferred tax assets	$ 368,648	$ 58,127	$ 22,475	$ 1,020	$ 450,271
Deferred tax liabilities					
Tax purpose reduction entry	(39,410)	551	–	–	(38,859)
Investments in securities	(20,105)	726	2,325	–	(17,054)
Depreciation and amortization	(66,416)	(1,544)	–	–	(67,959)
Intangible assets acquired in business combinations	(56,483)	5,642	–	–	(50,841)
Other	(143,159)	9,069	–	–	(308,803)
Total deferred tax liabilities	$ (325,572)	$ 14,445	$ 2,325	$ –	$ (308,803)
Net deferred tax assets	$ 43,076	$ 72,572	$ 24,800	$ 1,020	$ 141,468

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, 2020 and 2019, were ¥157,765 million (U.S. 1,449,646 thousand) and ¥162,509 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, 2020.

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, 2020	March 31, 2019	March 31, 2020
Deductible temporary differences	¥ 56,342	¥ 33,699	$ 517,707
Net operating loss carry-forwards	243	653	2,233
Unused tax credits carry-forwards	839	1,036	7,709
Total	¥ 57,424	¥ 35,388	$ 527,649

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, 2020	March 31, 2019	March 31, 2020
Net operating loss carry-forwards			
Within 5 years	¥ 243	¥ 450	$ 2,233
After 5 years but not more than 10 years	–	203	–
Total net operating loss carry-forwards	¥ 243	¥ 653	$ 2,233
Unused tax credits carry-forwards			
Within 5 years	¥ 839	¥ 1,036	$ 7,709
After 5 years but not more than 10 years	–	–	–
Total unused tax credits carry-forwards	¥ 839	¥ 1,036	$ 7,709

Note 13. Trade Payables

Trade payables as of March 31, 2020 and 2019, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	March 31, 2019	March 31, 2020
Accounts payable	¥ 111,130	¥ 135,553	$ 1,021,134
Notes payable and electronically recorded obligations	15,510	19,698	142,516
Total	¥ 126,640	¥ 155,251	$ 1,163,650

Note 14. 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, 2020, are as follows:

	Millions of yen	
	Asset retirement obligations	Provision for environmental measures
Balance at April 1, 2019	¥ 792	¥ 694
Additions	181	587
Utilized	(10)	(133)
Reversals	(23)	(201)
Effects of exchange rate changes	(17)	–
Balance at March 31, 2020	¥ 923	¥ 947
Current	–	–
Non-current	¥ 923	¥ 947

	Thousands of U.S. dollars	
	Asset retirement obligations	Provision for environmental measures
Balance at April 1, 2019	$ 7,277	$ 6,377
Additions	1,663	5,394
Utilized	(92)	(1,222)
Reversals	(211)	(1,847)
Effects of exchange rate changes	(156)	–
Balance at March 31, 2020	$ 8,481	$ 8,702
Current	–	–
Non-current	$ 8,481	$ 8,702

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 15. 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
	2020	2019	2020
Defined benefit obligations at the beginning of the year	¥ 187,621	¥ 189,597	$ 1,723,982
Service costs	6,710	6,771	61,656
Interest costs	1,882	1,987	17,293
Actuarial gains and losses	5,054	133	46,439
Past service cost	–	32	–
Benefits paid	(13,667)	(11,114)	(125,581)
Effects of exchange rate changes and others	(878)	215	(8,068)
Defined benefit obligation at the end of the year	¥ 186,722	¥ 187,621	$ 1,715,722

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Fair value of plan assets at the beginning of the year	¥131,564	¥ 133,967	$ 1,208,895
Interest income	957	1,155	8,794
Return on plan assets (excluding interest income)	(4,389)	521	(40,329)
Contributions to defined benefit pension plans (Note)	3,272	3,980	30,065
Benefits paid	(10,576)	(8,419)	(97,179)
Effects of exchange rate changes and others	(346)	360	(3,179)
Fair value of plan assets at the end of the year	¥120,482	¥ 131,564	$ 1,107,066

Note: As of March 31, 2020, the estimated contributions to the defined benefit pension plans for the year ending March 31, 2021, were ¥3,602 million (U.S. $33,097 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, 2020	March 31, 2019	March 31, 2020
Present value of defined benefit obligations (funded)	¥ (180,201)	¥ (181,374)	$ (1,655,803)
Fair value of plan assets	120,482	131,564	1,107,066
Funded status	(59,719)	(49,810)	(548,737)
Present value of defined benefit obligations (unfunded)	(6,521)	(6,247)	(59,919)
Net asset (liability) recognized in the consolidated statement of financial position	¥ (66,240)	¥ (56,057)	$ (608,656)

Components of actuarial gains and losses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Arising from changes in financial assumptions	¥ 3,289	¥ 330	$ 30,221
Arising from changes in demographic assumptions	1,716	(134)	15,768
Other	49	(63)	450

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, 2020	March 31, 2019
Discount rate	1.1%	1.1%

If, as of March 31, 2020, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥8,759 million (U.S. $80,483 thousand), and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥9,195 million (U.S. $84,490 thousand). If, as of March 31, 2019, the discount rate rose by 0.5%, the defined benefit obligations would decrease by ¥14,065 million, and if the discount rate decreased by 0.5%, the defined benefit obligations would increase by ¥3,867 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, 2020	March 31, 2019
Duration	10.7 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, 2020 and 2019:

	Millions of yen		
	March 31, 2020		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	¥ 6,696	¥ 247	¥ 6,943
Government and municipal debt securities	1,033	185	1,218
Corporate and other debt securities	−	970	970
Hedge funds	−	1,131	1,131
Securitized products	−	1,881	1,881
Cash and cash equivalents	10,001	−	10,001
Life insurance company general accounts	−	19,548	19,548
Commingled funds	−	77,979	77,979
Other	85	726	811
Total	¥ 17,815	¥ 102,667	¥ 120,482

	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

	Thousands of U.S. dollars		
	March 31, 2020		
	With a quoted market price in an active market	Without a quoted market price in an active market	Total
Stocks	$ 61,527	$ 2,270	$ 63,797
Government and municipal debt securities	9,492	1,700	11,192
Corporate and other debt securities	–	8,913	8,913
Hedge funds	–	10,392	10,392
Securitized products	–	17,284	17,284
Cash and cash equivalents	91,896	–	91,896
Life insurance company general accounts	–	179,620	179,620
Commingled funds	–	716,521	716,521
Other	781	6,671	7,452
Total	$ 163,696	$ 943,370	$ 1,107,066

Commingled funds represent pooled institutional investments. Approximately 30% and 33% of commingled funds were invested in listed stocks as of March 31, 2020 and 2019, respectively. Approximately 47% and 45% were invested in government and municipal debt securities as of March 31, 2020 and 2019, respectively. Approximately 18% and 17% were invested in corporate and other debt securities as of March 31, 2020 and 2019, respectively. Approximately 5% was invested in other assets as of March 31, 2020 and 2019.

Expenses recognized in relation to the Company’s and certain subsidiaries’ contributions to the defined contribution plans amounted to ¥3,155 million (U.S. $28,990 thousand) and ¥3,025 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019, were ¥137,507 million (U.S. $1,263,503 thousand) and ¥144,014 million, respectively.

Note 16. Equity

(1) Common Stock

	March 31, 2020	March 31, 2019
Authorized issuance (Number of shares)	500,000,000	500,000,000

	Issued shares (Number of shares)
Balance as of April 1, 2018	428,904,352
Changes during the year	–
Balance as of March 31, 2019	428,904,352
Changes during the year	–
Balance as of March 31, 2020	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, 2020 and 2019, are as follows:

	Treasury shares (Number of shares)
Balance as of April 1, 2018	1,332,135
Acquisition of treasury stock	2,712
Sales of treasury stock	(406)
Balance as of March 31, 2019	1,334,441
Acquisition of treasury stock	3,254
Sales of treasury stock	(112)
Balance as of March 31, 2020	1,337,583

Treasury stock held by the Company's associates was 71,885 shares as of March 31, 2020 and 2019.

(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 17. 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
	2020	2019	2020
Foreign currency translation adjustments on foreign operations:			
Balance at the beginning of the year	¥ 7,129	¥ 1,411	$ 65,506
Net other comprehensive income	(9,409)	5,718	(86,456)
Balance at the end of the year	¥ (2,280)	¥ 7,129	$ (20,950)
Remeasurements of defined benefit pension plans:			
Balance at the beginning of the year	¥ 8,627	¥7,615	$ 79,270
Net other comprehensive income	(7,068)	1,012	(64,945)
Balance at the end of the year	¥ 1,559	¥ 8,627	$ 14,325
Net change in fair value of financial assets measured at FVTOCI:			
Balance at the beginning of the year	¥ 6,184	¥ 7,836	$ 56,823
Transfer to retained earnings	(16)	(163)	(147)
Net other comprehensive income	(354)	(1,489)	(3,253)
Balance at the end of the year	¥ 5,814	¥ 6,184	$ 53,423
Net change in fair value of cash flow hedges:			
Balance at the beginning of the year	¥ (15)	¥34	$ (138)
Net other comprehensive income	(109)	(49)	(1,002)
Balance at the end of the year	¥ (124)	¥ (15)	$ (1,139)
Total accumulated other comprehensive income:			
Balance at the beginning of the year	¥ 21,925	¥ 16,896	$ 201,461
Transfer to retained earnings	(16)	(163)	(147)
Net other comprehensive income	(16,940)	5,192	(155,656)
Balance at the end of the year	¥ 4,969	¥ 21,925	$ 45,658

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, 2020 and 2019:

	Millions of yen		
	2020		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	¥ (9,749)	¥ −	¥ (9,749)
Remeasurements of defined benefit plans	(9,469)	2,400	(7,069)
Net gains or losses from financial assets measured at fair value through other comprehensive income	(817)	244	(573)
Net change in fair value of cash flow hedges	(178)	54	(124)
Share of other comprehensive income of investments accounted for using the equity method	297	(89)	208
Total	¥ (19,916)	¥ 2,609	¥ (17,307)
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	¥26	¥ −	¥ 26
Net change in fair value of cash flow hedges	23	(8)	15
Total	¥49	¥ (8)	¥ 41
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	¥ (9,723)	¥ −	¥ (9,723)
Remeasurements of defined benefit plans	(9,469)	2,400	(7,069)
Net gains or losses from financial assets measured at fair value through other comprehensive income	(817)	244	(573)
Net change in fair value of cash flow hedges	(155)	46	(109)
Share of other comprehensive income of investments accounted for using the equity method	297	(89)	208
Total	¥ (19,867)	¥ 2,601	¥ (17,266)
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			¥ (325)
Remeasurements of defined benefit plans			(1)
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			¥ (326)
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			
Foreign currency translation adjustments on foreign operations			¥ (9,398)
Remeasurements of defined benefit plans			(7,068)
Net gains or losses from financial assets measured at fair value through other comprehensive income			(573)
Net change in fair value of cash flow hedges			(109)
Share of other comprehensive income of investments accounted for using the equity method			208
Total			¥ (16,940)

	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 plans	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 plans	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)
Remeasurements of defined benefit plans			–
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 plans			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

	Thousands of U.S. dollars		
	2020		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments on foreign operations	$ (89,580)	–	$ (89,580)
Remeasurements of defined benefit plans	(87,007)	22,053	(64,955)
Net gains or losses from financial assets measured at fair value through other comprehensive income	(7,507)	2,242	(5,265)
Net change in fair value of cash flow hedges	(1,636)	496	(1,139)
Share of other comprehensive income of investments accounted for using the equity method	2,729	(818)	1,911
Total	$ (183,001)	$ 23,973	$ (159,028)
Reclassification adjustments between items in other comprehensive income and net income:			
Foreign currency translation adjustments on foreign operations	$ 239	–	$ 239
Net change in fair value of cash flow hedges	211	(74)	138
Total	$ 450	$ (74)	$ 377
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments on foreign operations	$ (89,341)	–	$ (89,341)
Remeasurements of defined benefit plans	(87,007)	22,053	(64,955)
Net gains or losses from financial assets measured at fair value through other comprehensive income	(7,507)	2,242	(5,265)
Net change in fair value of cash flow hedges	(1,424)	423	(1,002)
Share of other comprehensive income of investments accounted for using the equity method	2,729	(818)	1,911
Total	$ (182,551)	$ 23,900	$ (158,651)
Other comprehensive income, net of reclassification adjustments attributable to non-controlling interests:			
Foreign currency translation adjustments on foreign operations			$ (2,986)
Remeasurements of defined benefit plans			$ (9)
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			$ (2,995)
Other comprehensive income, net of reclassification adjustments attributable to shareholders of the parent company:			
Foreign currency translation adjustments on foreign operations			$ (86,355)
Remeasurements of defined benefit plans			(64,945)
Net gains or losses from financial assets measured at fair value through other comprehensive income			(5,265)
Net change in fair value of cash flow hedges			(1,002)
Share of other comprehensive income of investments accounted for using the equity method			1,911
Total			$ (155,656)

Note 18. Dividends

Dividends paid for the years ended March 31, 2020 and 2019, 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 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
Board of Directors' meeting on May 27, 2019	Common stock	¥ 7,269	Retained earnings	¥ 17.0	March 31, 2019	May 29, 2019
Board of Directors' meeting on October 29, 2019	Common stock	¥5,558	Retained earnings	¥ 13.0	September 30, 2019	November 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	$ 66,792	Retained earnings	$ 0.16	March 31, 2019	May, 29, 2019
Board of Directors' meeting on October 29, 2019	Common stock	$ 51,070	Retained earnings	$ 0.12	September 30, 2019	November 29, 2019

Dividends whose record date is during the year ended March 31, 2020, 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, 2020	Common stock	¥ 5,558	Retained earnings	¥ 13.0	March 31, 2020	June 30, 2020

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, 2020	Common stock	$ 51,070	Retained earnings	$ 0.12	March 31, 2020	June 30, 2020

Note 19. Revenues

(1) Disaggregation of revenue

The Group has four reportable segments as described in Note 4. "Segment Information," which include the Specialty Steel Products segment, the Functional Components and Equipment segment, the Magnetic Materials and Applications / Power Electronics Materials segment, and the Wires, Cables, and Related Products segment. 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:

As of April 1, 2019, the Company transferred the soft magnetic materials business from the Specialty Steel Products segment to the Magnetic Materials and Applications segment. Further, the transferred soft magnetic materials business was combined with the ceramic business, which was part of the magnetic materials and applications business of the Magnetic Materials and Applications segment, and the combined businesses were classified as the power electronics materials business within the Magnetic Materials and Applications segment. Also, the Company changed the segment name from the Magnetic Materials and Applications segment to the Magnetic Materials and Applications / Power Electronics Materials segment.

Due to this change, revenues of ceramic products arising from both the soft magnetic materials business and the magnetic materials and applications business for the fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019), are recorded under the power electronics materials business.

		Millions of yen		Thousands of U.S. dollars
		2020	2019	2020
Specialty Steel Products				
	Specialty Steel Business	¥ 226,071	¥ 253,262	$ 2,077,286
	Roll Business	24,572	23,642	225,783
Functional Components and Equipment				
	Automotive Components Business	253,831	319,757	2,332,362
	Piping Components Business	45,872	47,806	421,501
Magnetic Materials and Applications /Power Electronics Materials				
	Magnetic Materials and Applications Business	79,641	99,240	731,793
	Power Electronics Materials Business	37,119	37,769	341,073
Wires, Cables, and Related Products				
	Electric Wires and Cables Business	213,329	240,123	1,960,204
Others and adjustments		967	1,822	8,885
Total		¥ 881,402	¥ 1,023,421	$ 8,098,888

(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 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	April 1, 2019	March 31, 2020
Trade receivables	¥157,732	¥ 195,306	$ 1,449,343
Contract liabilities	640	534	5,881

Note that the amount of revenue recognized for the fiscal year ended March 31, 2020, included in the beginning balance of contract liabilities as of April 1, 2019, is immaterial.

	Millions of yen	
	March 31, 2019	April 1, 2018
Trade receivables	¥ 195,306	¥ 207,628
Contract liabilities	534	869

(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 20. Other Income and Expenses

Other income and expenses for the years ended March 31, 2020 and 2019, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other income:			
Gain on reorganization (*)	¥ –	¥ 5,851	$ –
Gain on sale of properties	4,900	278	45,024
Rental income from properties held	1,179	1,371	10,833
Other	2,520	3,167	23,155
Total	¥ 8,599	¥ 10,667	$ 79,013
Other expenses:			
Structural reform expenses	¥ 5,460	¥ 3,306	$ 50,170
Loss on disposal of property, plant and equipment	2,745	3,999	25,223
Impairment loss on property, plant and equipment	49,179	7,394	451,888
Other	4,724	4,953	43,407
Total	¥ 62,108	¥ 19,652	$ 570,688

* Gain on reorganization for the year ended March 31, 2019, includes ¥94 million 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 year ended March 31, 2019.

Note 21. Other Financial Income and Expenses

Other financial income and expenses for the years ended March 31, 2020 and 2019, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other financial income:			
Dividend income (**)	¥ 122	¥ 128	$ 1,121
Exchange gain	–	718	–
Total	¥ 122	¥ 846	$ 1,121
Other financial expenses:			
Exchange loss	901	–	8,279
Other	186	8	1,709
Total	¥ 1,087	¥ 8	$ 9,988

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

Note 22. Earnings per Share

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

	Thousands of shares	
	2020	2019
Weighted-average number of common stock on which basic EPS is calculated	427,568	427,570

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net (loss) income attributable to shareholders of the parent company	¥ (37,648)	¥ 31,370	$ (345,934)

	Yen		U.S. dollars
	2020	2019	2020
Basic EPS attributable to shareholders of the parent company	¥ (88.05)	¥ 73.37	$ (0.81)

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, 2020 and 2019.

Note 23. Supplementary Explanation on the Consolidated Statement of Cash Flows

Changes in liabilities arising from financing activities during the fiscal year ended March 31, 2020 and 2019, are as follows:

	Millions of yen				
	Short-term debt	Corporate bonds payable	Long-term debt	Lease liabilities	Total
Balance as of April 1, 2019	¥48,844	¥ 40,606	¥ 110,830	¥ 1,818	¥ 202,098
Adjustment due to the adoption of IFRS 16	–	–	–	¥ 17,389	¥ 17,389
Balance as of April 1, 2019 (adjusted)	48,844	40,606	110,830	19,207	219,487
Increase (decrease) involving cash flows	5,271	(720)	(32,182)	(3,162)	(30,793)
Increase (decrease) not involving cash flows:					
Effects of exchange rate changes	(1,067)	–	(477)	48	(1,496)
New leases	–	–	–	2,295	2,295
Others	–	26	(318)	(1,615)	(1,907)
Balance as of March 31, 2020	¥ 53,048	¥ 39,912	¥ 77,853	¥ 16,773	¥ 187,586

	Millions of yen				
	Short-term debt	Corporate bonds payable	Long-term debt	Lease liabilities	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

	Thousands of U.S. dollars				
	Short-term debt	Corporate bonds payable	Long-term debt	Lease liabilities	Total
Balance as of April 1, 2019	$ 448,810	$ 373,114	$ 1,018,377	$ 16,705	$ 1,857,006
Adjustment due to the adoption of IFRS 16	–	–	–	159,781	159,781
Balance as of April 1, 2019 (adjusted)	448,810	373,114	1,018,377	176,486	2,016,788
Increase (decrease) involving cash flows	48,433	(6,616)	(295,709)	(29,054)	(282,946)
Increase (decrease) not involving cash flows:					
Effects of exchange rate changes	(9,804)	–	(4,383)	441	(13,746)
New leases	–	–	–	21,088	21,088
Others	–	–	–	21,088	21,088
Balance as of March 31, 2020	$ 487,439	$ 366,737	$ 715,363	$ 154,121	$ 1,723,661

Note 24. 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, 2020 and 2019, would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Impact on income before income taxes	¥ (420)	¥ 2	$ (3,859)

(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, 2020 and 2019, would have been as follows:

	Currency	Millions of yen		Thousands of U.S. dollars
		2020	2019	2020
Impact on income before income taxes	U.S. dollar	¥ 123	¥ 162	$ 1,130
	Euro	33	35	303
	Other	11	23	101

(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 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
April 1, 2019	¥ 84	¥ 229	¥ 313	¥ 195,308	¥ 323	¥ 195,631
Changes during the year (net)	(32)	(81)	(113)	(37,532)	(167)	(37,699)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	(4)	(11)	(15)	(4)	(11)	(15)
Others (c)	–	–	–	–	–	–
March 31, 2020	¥ 48	¥ 137	¥ 185	¥ 157,772	¥ 145	¥ 157,917

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
April 1, 2019	¥ 11	¥ 1	¥ 12	¥ 17,891	¥ 1	¥ 17,892
Changes during the year (net)	(11)	726	715	(5,266)	726	(4,540)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	–	–	–	–	–	–
Others (c)	–	–	–	–	–	–
March 31, 2020	¥ –	¥ 727	¥ 727	¥ 12,625	¥ 727	¥ 13,352

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

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

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
April 1, 2019	$ 772	$ 2,104	$ 2,876	$ 1,794,615	$ 2,968	$ 1,797,583
Changes during the year (net)	(294)	(744)	(1,038)	(344,868)	(1,535)	(346,403)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	(37)	(101)	(138)	(37)	(101)	(138)
Others (c)	–	–	–	–	–	–
March 31, 2020	$ 441	$ 1,259	$ 1,700	$ 1,449,711	$ 1,332	$ 1,451,043

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
April 1, 2019	$ 101	$ 9	$ 110	$ 164,394	$ 9	$ 164,403
Changes during the year (net)	(101)	6,671	6,570	(48,387)	6,671	(41,716)
Credit impairment (a)	–	–	–	–	–	–
Write off (b)	–	–	–	–	–	–
Others (c)	–	–	–	–	–	–
March 31, 2020	$ –	$ 6,680	$ 6,680	$ 116,007	$ 6,680	$ 122,687

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.

(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, 2020, 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, 2020				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	¥ 53,048	¥ 53,950	¥ 53,950	¥ –	¥ –
Current portion of long-term debt					
Current portion of long-term borrowings	47,507	47,701	47,701	–	–
Current portion of corporate bonds payable	20	20	20	–	–
Lease liabilities	3,726	3,806	3,806	–	–
Long-term debt					
Long-term borrowings	30,346	31,247	385	30,762	100
Corporate bonds payable	39,892	40,545	76	15,322	25,147
Lease liabilities	13,047	13,299	–	8,855	4,444

	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 liabilities	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 liabilities	¥1,394	1,394	–	1,079	315

	Thousands of U.S. dollars				
	March 31, 2020				
	Carrying amount	Contractual cash flows	Within one year	After one but not more than five years	Over five years
Short-term debt	$ 487,439	$ 495,727	$ 495,727	$ –	$ –
Current portion of long-term debt					
Current portion of long-term borrowings	436,525	438,307	438,307	–	–
Current portion of corporate bonds payable	184	184	184	–	–
Lease liabilities	34,237	34,972	34,972	–	–
Long-term debt					
Long-term borrowings	278,839	287,118	3,538	282,661	919
Corporate bonds payable	366,553	372,554	698	140,788	231,067
Lease liabilities	119,884	122,200	–	81,365	40,834

The weighted-average interest rates of short-term debt, the current portion of long-term debt, and long-term debt are 1.76%, 0.69%, and 1.54%, respectively. The maturities range from 2020 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, 2020	March 31, 2019	March 31, 2020			
The Company	The 31st unsecured corporate bond	December 6, 2018	¥ 14,953	¥ 14,941	$ 137,398	Unsecured	0.14	December 6, 2023
The Company	The 32nd unsecured corporate bond	December 6, 2018	¥ 14,950	¥ 14,941	$ 137,370	Unsecured	0.28	December 5, 2025
The Company	The 33th unsecured corporate bond	December 6, 2018	¥ 9,959	¥ 9,954	$ 91,510	Unsecured	0.385	December 6, 2028
Santoku Corporation	Santoku Corporation the 33th unsecured corporate bond	September 29, 2017	¥ 50	¥ 70	$ 459	Unsecured	0.21	September 29, 2022
Total	–	–	¥ 39,912	¥ 40,606	$ 366,737	–	–	–

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, 2020			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	¥ –	¥ –	¥ –	¥ –
	Out	–	–	–	–
Interest rate swap contracts	In	–	–	–	–
	Out	101	77	–	178
Put options	In	6,061	–	–	6,061
	Out	–	–	–	–

		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 swap contracts	In	–	346	–	346
	Out	119	256	–	375
Put options	In	–	6,061	–	6,061
	Out	–	–	–	–

		Thousands of U.S. dollars			
		March 31, 2020			
		Within one year	After one but not more than five years	Over five years	Total
Forward exchange contracts	In	$ –	$ –	$ –	$ –
	Out	–	–	–	–
Interest rate swap contracts	In	–	–	–	–
	Out	928	708	–	1,636
Put options	In	55,692	–	–	55,692
	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, 2020, was ¥520,313 million (U.S. $4,780,970 thousand), which decreased by ¥67,666 million (U.S. $621,759 thousand) from the end of the year ended March 31, 2019. As a result, the ratio of equity attributable to shareholders of the parent company as of March 31, 2020, was 53.2%, a decrease from 53.5% as of March 31, 2019.

(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:

Short-term loans receivable and short-term debt:

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 derivatives:

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.

Other debt securities:

Other debt securities represent leasehold deposits and security deposits, whose fair value is estimated based on the present value of future cash flows using current market interest rates.

(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, 2020 and 2019, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2020		March 31, 2019		March 31, 2020	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Financial assets measured at FVTPL						
Current						
Securities	¥ 634	¥ 634	¥ 1,703	¥ 1,703	$ 5,826	$ 5,826
Derivatives						
Forward exchange contracts	–	–	6	6	–	–
Put options	6,061	6,061	–	–	55,692	55,692
Non-current						
Securities	1,883	1,883	1,734	1,734	17,302	17,302
Derivatives						
Interest rate swaps	–	–	90	90	–	–
Put options	–	–	6,061	6,061	–	–
Financial assets measured at FVTOCI						
Non-current						
Securities	9,131	9,131	9,974	9,974	83,901	83,901
Financial assets measured at amortized cost						
Current						
Short-term loans receivable	13	13	17	17	119	119
Current portion of long-term receivables						
Current portion of long-term loans receivable	2	2	–	–	18	18
Non-current						
Other debt securities	1,368	1,368	1,448	1,448	12,570	12,570
Long-term loans receivable	637	637	654	654	5,853	5,853

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, 2020	
Equity instruments	Fair value
Kowa Kogyosho Co., Ltd.	¥ 1,462
Kakimoto Co., Ltd.	1,423
Riken Corporation	982
Konwa Kaikan	862
OSG Corporation	530
Owari Precise Products Co., Ltd.	374
Kojima Co., Ltd.	352
WEARE Pacific Co., Ltd.	345
Mikuni Shoji Co., Ltd.	243
NTC Corporation	210

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

Thousands of U.S. dollars	
March 31, 2020	
Equity instruments	Fair value
Kowa Kogyosho Co., Ltd.	$ 13,434
Kakimoto Co., Ltd.	13,075
Riken Corporation	9,023
Konwa Kaikan	7,921
OSG Corporation	4,870
Owari Precise Products Co., Ltd.	3,437
Kojima Co., Ltd.	3,234
WEARE Pacific Co., Ltd.	3,170
Mikuni Shoji Co., Ltd.	2,233
NTC Corporation	1,930

(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, 2020		March 31, 2019		March 31, 2020	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Financial liabilities measured at FVTPL						
Current						
Derivatives						
Interest rate swap contracts	¥ 101	¥ 101	¥ 119	¥ 119	$ 928	$ 928
Non-current						
Derivatives						
Interest rate swap contracts	77	77	–	–	708	708
Financial liabilities measured at amortized cost						
Current						
Short-term debt	53,048	53,048	48,844	48,844	487,439	487,439
Current portion of long-term debt						
Current portion of long-term borrowings	47,507	47,621	33,124	33,288	436,525	437,572
Current portion of corporate bonds payable	20	20	720	720	184	184
Lease liabilities	3,726	3,726	424	424	34,237	34,237
Non-current						
Long-term debt						
Long-term borrowings	30,346	30,513	77,706	78,420	278,839	280,373
Corporate bonds payable	39,892	40,018	39,886	40,264	366,553	367,711
Lease liabilities	13,047	13,047	1,394	1,394	119,884	119,884

Since the fair value of lease liabilities is not material to the consolidated statements 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 liabilities. 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 and 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, 2020 and 2019:

	Millions of yen			
	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	¥ 634	¥ –	¥ –	¥ 634
Derivatives	–	–	6,061	6,061
FVTPL (Non-current)				
Securities	–	1,203	680	1,883
FVTOCI (Non-current)	2,090	–	7,041	9,131
Liabilities				
FVTPL (Current)	–	101	–	101
FVTPL (Non-current)	–	77	–	77

	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)	–	–	–	–

	Thousands of U.S. dollars			
	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
FVTPL (Current)				
Securities	$ 5,826	$ –	$ –	$ 5,826
Derivatives	–	–	55,692	55,692
FVTPL (Non-current)				
Securities	–	11,054	6,248	17,302
FVTOCI (Non-current)	19,204	–	64,697	83,901
Liabilities				
FVTPL (Current)	–	928	–	928
FVTPL (Non-current)	–	708	–	708

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, 2020 and 2019:

	Millions of yen		
	FVTPL	FVTOCI	Total
At April 1, 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
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	374	374
Sales or redemption	(94)	(107)	(201)
Purchases or acquisition	82	81	163
Other	–	(16)	(16)
At March 31, 2020	¥ 6,741	¥ 7,041	¥ 13,782

	Thousands of U.S. dollars		
	FVTPL	FVTOCI	Total
At March 31, 2019	$ 62,051	$ 61,647	$ 123,698
Gains (losses) in profit or loss	–	–	–
Gains (losses) in other comprehensive income	–	3,437	3,437
Sales or redemption	(864)	(983)	(1,847)
Purchases or acquisitions	753	744	1,498
Other	–	(147)	(147)
At March 31, 2020	$ 61,941	$ 64,697	$ 126,638

There were no changes in unrealized gains (losses) recognized in profit or loss relating to assets held as of March 31, 2020 and 2019.

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, 2020, 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, 2020 and 2019, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2020		March 31, 2019		March 31, 2020	
	Asset	Liability	Asset	Liability	Asset	Liability
Cash flow hedges						
Forward exchange contracts	¥ –	¥ –	¥ 6	¥ –	$ –	$ –
Interest rate swap contracts	–	178	346	375	–	1,636
Total	¥ –	¥ 178	¥ 352	¥ 375	$ –	$ 1,636

The fair values of derivative assets and liabilities to which hedge accounting is not applied were ¥6,061 million (U.S. $55,692 thousand) and ¥– million (U.S. $– thousand), respectively, as of March 31, 2020, and ¥6,061 million and ¥– million, respectively, as of March 31, 2019.

The contract or notional amounts of derivatives as of March 31, 2020 and 2019, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	March 31, 2019	March 31, 2020
Forward exchange contracts:			
To sell foreign currencies	¥ –	¥ –	$ –
To buy foreign currencies	19	234	175
Interest rate swap contracts	51,825	83,248	476,201
Copper futures contracts	–	–	–

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 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 statements of financial position.

Hedging Instruments	Millions of yen			
	March 31, 2020			
	Notional amount		Carrying amount	
		Over one year	Asset	Liability
Cash flow hedges				
Currency exchange risk	¥ 19	¥ –	¥ –	¥ –
Interest rate risk	51,825	16,325	–	178
Total	¥ 51,844	¥ 16,325	¥ –	¥ 178

Hedging Instruments	Millions of yen			
	March 31, 2019			
	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			
	March 31, 2020			
	Notional amount		Carrying amount	
		Over one year	Asset	Liability
Cash flow hedges				
Currency exchange risk	$ 175	$ –	$ –	$ –
Interest rate risk	476,201	150,005	–	1,636
Total	$ 476,376	$ 150,005	$ –	$ 1,636

Reconciliation of fair value of the hedging instruments applying cash flow hedges, which are recognized in other comprehensive income is as follows:

	Millions of yen				
	2020				
	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)	Balance at the end of the year
Price risk	¥ –	¥ –	¥ –	¥ –	¥ –
Currency exchange risk	6	(6)	–	–	–
Interest rate risk	(29)	(149)	–	–	(178)
Total	¥ (23)	¥ (155)	¥ –	¥ –	¥ (178)

	Millions of yen				
	2019				
	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)	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)

	Thousands of U.S. dollars				
	2020				
	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)	Balance at the end of the year
Price risk	$ –	$ –	$ –	$ –	$ –
Currency exchange risk	55	(55)	–	–	–
Interest rate risk	(266)	(1,369)	–	–	(1,636)
Total	$ (211)	$ (1,424)	$ –	$ –	$ (1,636)

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 statements of income.

Note 25. Major Subsidiaries and Associates

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

As of March 31, 2020

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 / Power Electronics	100.0
NEOMAX ENGINEERING Co., Ltd.	Takasaki, Gunma	Magnetic Materials and Applications / Power Electronics	100.0
Hitachi Ferrite Electronics, Ltd.	Tottori, Tottori	Magnetic Materials and Applications / Power Electronics	100.0
NEOMAX KYUSHU Co., Ltd.	Takeo, Saga	Magnetic Materials and Applications / Power Electronics	100.0
Santoku Corporation	Higashinada-ku, Kobe, Hyogo	Magnetic Materials and Applications / Power Electronics	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.	Magnetic Materials and Applications / Power Electronics	100.0
Hitachi Metals Korea Co., Ltd.	Gyeonggi-do, South Korea	Manufacturing and sales of products	100.0
Baosteel Hitachi Rolls (Nantong) Co., Ltd.	Jiangsu, China	Specialty Steel Products	70.0
San Technology, Inc.	Cavite, Philippines	Magnetic Materials and Applications / Power Electronics	100.0
Pacific Metals Co., Ltd.	North Gyeongsang, South Korea	Magnetic Materials and Applications / Power Electronics	100.0
PT. HITACHI METALS INDONESIA	Banten, Indonesia	Magnetic Materials and Applications / Power Electronics	100.0
Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd.	Jiangsu, China	Magnetic Materials and Applications / Power Electronics	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	100.0
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, 2020

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	90.3
HC Queretaro, S.A. de C.V.	Queretaro, Mexico	Manufacturing and sales of products	100.0
Others 20 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, 2020:

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.	Borrowings from Hitachi Group cash pooling system (*1) (*3)	Repayment ¥ 6,541 (*4)	¥ 1,183	Repayment $ 60,103 (*4)	$ 10,870
Company with the same parent company	Hitachi America Capital, Ltd.	Borrowings from a cash pooling system (*2) (*3)	Repayment ¥ 271 (*4)	¥ 28,031	Repayment $ 2,490 (*4)	$ 257,567

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 borrowing 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, 2019:

Attribution	Name	Nature of transaction	Millions of yen	
			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
Company with the same parent company	Hitachi America Capital, Ltd.	Borrowings from a cash pooling system (*2) (*3)	Borrowings ¥ 9,179 (*4)	¥ 28,302

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 borrowing 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.

(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, 2020	For the year ended March 31, 2019	For the year ended March 31, 2020
Short-term employee benefits	¥ 550	¥ 639	$ 5,054

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, 2020, were ¥40,000 million (U.S. $367,546 thousand) and also ¥40,000 million as of March 31, 2019. The Group also has overdraft facilities with financial institutions. The unused facilities under these agreements as of March 31, 2020 and 2019, were ¥77,928 million (U.S. $716,053 thousand) and ¥86,308 million, respectively.

(2) Commitments for Acquisition of Assets

Outstanding commitments for the purchase of property, plant and equipment as of March 31, 2020 and 2019, were ¥11,255 million (U.S. $103,418 thousand) and ¥20,845 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 ¥2,723 million (U.S. $25,021 thousand) and ¥3,188 million as of March 31, 2020 and 2019, respectively.

(4) Others

The Company discovered misrepresentation of test results in inspection reports submitted to customers for certain specialty steel products and magnetic material products (ferrite magnets and rare earth magnets) manufactured by the Company and its subsidiaries. The Company has already reported the incident to individual customers and continues to hold discussions with them for countermeasures. At the same time, the Company has set up a special investigation committee to investigate related facts and root causes. The outcome of the investigation by the special investigation committee may affect the Group's financial position and business performance going forward. Nonetheless as the financial impact, if any, is difficult to be reasonably estimated at this time, it is not reflected in the consolidated financial statements of the Group for the fiscal year ended March 31, 2020.

Note 28. Additional Information

Certain accounting treatments require the Group to make estimates for future cash flows and future taxable profits, including impairment testing on non-financial assets and assessment of possible realization of deferred tax assets. The Group expects throughout its estimates for the fiscal year ended March 31, 2020, that the current stalling of economic activities in Japan and overseas on account of COVID-19 outbreak will recover in the medium- to long-term, although circumstances may vary by segment and geographic region considering its broad range of business activities conducted globally.

The Company believes that those assumptions are the best estimates that could be made by the Company as of March 31, 2020. However, if those negative effects due to COVID-19 continue or worsen beyond expectation, they may affect the Group's significant accounting estimates and judgments, including the assessment of non-financial assets and possible realization of deferred tax assets.

Note 29. Subsequent Events

There are no applicable items.

Independent Auditor's Report

The Board of Directors
Hitachi Metals, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Hitachi Metals, Ltd. and its consolidated subsidiaries(the Group), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As described in Note 27. "Commitments and Contingencies (Other Than Liabilities Recognized as Provisions) (4) Others" to the consolidated financial statements, the outcome of the investigations by the special investigation committee may affect the Group's financial position and business performance going forward. However, as the financial impact, if any, cannot be reasonably estimated at this time, it is not reflected in the consolidated financial statements of the Group.
Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">1. Impairment of non-financial assets</td></tr>
<tr><td>Description and reasons for determination of the matter</td><td>Auditor’s response</td></tr>
<tr><td>
As described in Note 10 to the consolidated financial statements, the Company’s significant goodwill which is related to the Functional Components and Equipment Segment arising from the acquisition of Waupaca Foundry, Inc. was ¥67,125 million as of March 31, 2020. Also, as described in Note 20 and 9, an impairment loss of ¥49,179 million was recognized in the current fiscal year due mainly to a decline in a profitability in the Magnetic Materials and Applications business,, primarily attributed to the changes in the operating environment of the rare earth magnet business.
Impairment is tested for cash-generating-units (CGUs) to which goodwill belongs and for CGUs when indicators of impairment exist, and the recoverable amount is calculated based on the greater of the fair value less costs of disposal or value in use. Value in use is the present value of the expected future cash flows, which is based on the business plan authorized by Management and other information. For the period beyond the term of the business plan, the expected future cash flows are estimated using the expected growth rate calculated based on the average long-term growth rate in the relevant market. The significant assumptions used in estimating the value in use are the expected future cash flow based on the business plan, terminal growth rate, and discount rate. The business plan is affected by the numbers of orders expected to be received and the expected sales amount and a market growth rate.
</td><td>
For the CGU to which the goodwill arising from the acquisition of Waupaca Foundry, Inc. related to the Functional Components and Equipment segment belongs and for other CGUs with indicators of impairment identified, we performed audit procedures that included, among others, the following:

We involved our valuation specialists of our network firm in assessing the valuation methods, the terminal growth rates, and discount rates in calculating the value in use as well as the valuation of the real estate which is the basis of the fair value less costs of disposal.
We inquired of Management about the numbers of the orders expected to be received and the expected sales amount and the market growth rate used in estimating the business plan, compared those to market forecasts and other available external information, and inspected the consistency between those and the estimated orders to be received from its customers.
We compared the estimated future cash flows with the business plan authorized by Management to evaluate the consistency.
We compared the prior year’s business plan with the actual results to evaluate the accuracy of Management’s estimation process.
We performed sensitivity analysis of the effects to the value in use that would result from the change in significant assumptions, such as the terminal growth rate to assess the significant assumptions used by Management.

</td></tr>
</table>

Auditing impairment of non-financial assets is complex as it involves uncertainty related to the significant assumptions and Management's judgment and expertise in estimating recoverable amount, and requires professional judgment. Therefore, we identified the audit of impairment of non-financial assets as a key audit matter.	● We inquired of Management about the assumption that the recession in business activities caused by COVID-19 would recover in the mid to long-term period and evaluated the impacts on the value in use.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

・ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

・ Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

・ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 23, 2020

/s/ Takashi Ouchida

Takashi Ouchida
Designated Engagement Partner
Certified Public Accountant

/s/ Teruyasu Omote

Teruyasu Omote
Designated Engagement Partner
Certified Public Accountant