NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2020

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mazda Motor Corporation (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

For the convenience of readers outside Japan, the accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The conversion of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2020, which was ¥109 to U.S. $1.00. The conversions should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the Company and its companies, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

The consolidated financial statements include the Company and 69 subsidiaries (69 in the year ended March 31, 2019). In addition, 18 affiliates (18 in the year ended March 31, 2019) are accounted for by the equity method.

The consolidated balance sheet date is March 31. Among the consolidated subsidiaries, 23 companies have balance sheet dates (in its statutory financial statements) different from the consolidated balance sheet date, most of which are December 31.

In preparing the consolidated financial statements, for 9 of the 23 companies, special purpose financial statements that are prepared for consolidation are used to supplement the companies' statutory financial statements. For the other 14 companies, in preparing the consolidated financial statements, financial statements of these companies with different balance sheet dates are used.

However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated balance sheet date.

FOREIGN CURRENCY CONVERSION

Receivables and payables denominated in foreign currencies are converted into Japanese yen at the exchange rate at the year-end date; gains and losses in foreign currency conversion are included in the income of the current period.

Balance sheets of consolidated foreign subsidiaries are converted into Japanese yen at the rates on the subsidiaries' balance sheet dates except for net assets accounts, which are converted at historical rates. Income statements of consolidated foreign subsidiaries are converted into Japanese yen at average rates during the subsidiaries' accounting periods, with the conversion differences prorated and included in the net assets as foreign currency conversion adjustment and non-controlling interests in consolidated subsidiaries.

CASH AND CASH EQUIVALENTS

The Group considers all highly liquid short-term investments with a minimum risk of price fluctuation, whose maturity date comes within three months from the time of acquisition, to be cash equivalents.

SECURITIES

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not have trading securities or held-to-maturity debt securities. Equity securities issued by unconsolidated subsidiaries and affiliated companies which, based on the applicable materiality provisions of Japanese GAAP, are not accounted for using the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and available-for-sale securities is not readily available, such securities should be written down to net asset value with a corresponding charge to income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

DERIVATIVES AND HEDGE ACCOUNTING

Derivative financial instruments are mainly stated at fair value, and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes and meet criteria for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in the fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

INVENTORIES

Inventories are stated at the lower of cost (determined principally by the average method), or net realizable value.

PROPERTY, PLANT AND EQUIPMENT (EXCEPT FOR LEASED ASSETS)

Property, plant and equipment are stated principally at cost. Depreciation is computed mainly using the straight-line method over the estimated economic useful lives of the assets with a residual value at the end of useful lives to be a memorandum value.

INTANGIBLE ASSETS (EXCEPT FOR LEASED ASSETS)

Intangible assets are amortized by the straight-line method over the estimated useful lives of the assets.
Software for internal use is amortized on a straight-line basis over the period of internal use, i.e., 5 years.

AMORTIZATION OF GOODWILL

The difference between acquisition cost and net assets acquired is shown as consolidation goodwill and amortized on a straight-line basis over a period (primarily 5 years) during which each investment is expected to generate benefits.

LEASED ASSETS

FINANCE LEASES IN WHICH OWNERSHIP IS NOT TRANSFERRED TO THE LESSEE

Contents of leased assets are as follows. Property, plant and equipment are mainly sales administration facilities, parts of automobile manufacturing equipment and molds, as well as electronic calculators. Intangible assets are software.

Finance leases are capitalized in the balance sheet. Depreciation or amortization expense is recognized on a straight-line basis over the lease period.

For leases with a guaranteed minimum residual value, the contracted residual value is considered to be the residual value for financial accounting purposes. For other leases, the residual value is zero.

The consolidated foreign subsidiaries that apply IFRS adopted IFRS 16 "Leases" ("IFRS 16") from the beginning of the fiscal year ended March 31, 2020 as described in Note 3, "Accounting Changes." In accordance with IFRS16, the lessee recognizes substantially all lease assets and lease liabilities on the balance sheet. For lease assets, depreciation or amortization expense is recognized on a straight-line basis over the lease period.

ALLOWANCE FOR DOUBTFUL RECEIVABLES

Allowance for doubtful receivables provides for the losses from bad debt. The amount estimated to be uncollectible is recognized; for receivables at an ordinary risk, it is based on the past default ratio, and for receivables at a high risk, it is calculated in consideration of collectibility of individual receivables.

RESERVE FOR WARRANTY EXPENSES

Reserve for warranty expenses provides for after-sales expenses of products (vehicles). In accordance with the coverage of the warranty booklet and the related laws and regulations, the amount is estimated per product warranty provisions and actual costs incurred in the past, taking future prospects into consideration.

EMPLOYEES' RETIREMENT BENEFITS

The Group provides various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors.

In calculating the retirement benefit obligations, the method of attributing expected benefit to the accounting period is based mainly on a benefit formula basis.

The recognition of actuarial differences is deferred on the straight-line basis over a period equal to or less than the average remaining service period of employees at the time such gains or losses are realized (mainly 13 years). The amortization of net gains or losses starts from the year immediately following the year in which such gains or losses arise.

The recognition of past service costs is deferred on a straight-line basis over a period equal to or less than the average remaining service period of employees at the time such cost is incurred (mainly 12 years).

INCOME TAXES

Income taxes comprise corporation, enterprise, and inhabitants taxes. Deferred tax assets and liabilities are recognized to reflect the estimated tax effects attributable to temporary differences and tax loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that will be in effect when the temporary differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance, if necessary, by the amount of any tax benefits that are not expected to be realized.

The Company and its wholly owned domestic subsidiaries elect to file a consolidated corporate tax return as a consolidation group.

For items amended in relation to the introduction of group tax sharing system under the "Act on Partial Revision of the Income Tax Act, etc.," the Company and some of its consolidated domestic subsidiaries recognize deferred tax assets and deferred tax liabilities based on the provisions of pre-amended tax laws instead of applying paragraph 44 of the "Implementation Guidance on Tax Effect Accounting," according to paragraph 3 of the "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System."

AMOUNTS PER SHARE OF COMMON STOCK

The computations of net income per share of common stock are based on the average number of shares outstanding during each year. Diluted net income per share of common stock is computed based on the average number of shares outstanding during each year after giving effect to the diluting potential of common stock to be issued upon the exercise of stock acquisition rights and stock options.

Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

ADDITIONAL INFORMATION

MATERIAL IMPACT OF THE GLOBAL SPREAD OF THE NOVEL CORONAVIRUS ON THE ACCOUNTING ESTIMATES

With regard to the impact of the novel coronavirus pandemic, the restrictions of economic activities after the middle of March 2020 due to the global spread of coronavirus resulted in a significant decline in the Company's global sales activities and thereby temporary increase in the inventory. In order to adjust the inventory to the adequate level, the Company has reduced its production.

As of March 31, 2020, although there was no unified view of the future spread of the novel coronavirus, based on the available information, the Company assessed the recoverability of deferred tax assets, assuming this impact will continue over a certain period during the fiscal year ending March 31, 2021.

3 ACCOUNTING CHANGES

(CHANGES IN ACCOUNTING POLICIES)

ASU 2014-09 "Revenue from Contracts with Customers"

The consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014-09 "Revenue from Contracts with Customers" from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

As a result, for the year ended March 31, 2019, net sales decreased by ¥524 million, operating income and income before income taxes decreased by ¥706 million, and net income attributable to owners of the parent decreased by ¥321 million compared with the figures prior to the retrospective adoption. And, on the consolidated balance sheet as of March 31, 2019, mainly deferred tax assets included in other investments and other assets increased by ¥5,931 million, accrued expenses increased by ¥19,160 million, other current liabilities increased by ¥1,796 million, other non-current liabilities increased by ¥1,113 million, and by reflecting the cumulative effects to the beginning balance of net assets, the beginning balance of retained earnings decreased by ¥14,611 million.

IFRS 16 "Leases"

The consolidated foreign subsidiaries that apply IFRS adopted IFRS 16 "Leases" from the beginning of the fiscal year ended March 31, 2020. In accordance with this adoption, the lessee recognized substantially all lease assets and lease liabilities on the balance sheet. The consolidated foreign subsidiaries adopted the transitional treatment, by which the cumulative effect of applying this standard was recognized at the date of initial application.

As a result, the balance of lease assets and lease liabilities (the total amount of Current and Non-current) at the beginning of the fiscal year ended March 31, 2020 increased by ¥15,821 million, each.

The effect of this standard on the consolidated statement of income for the year ended March 31, 2020 was immaterial.

(NEW ACCOUNTING STANDARDS NOT YET APPLIED)

The following standards and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(1) Summary

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") have jointly developed comprehensive principles for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 by the IASB and ASU 2014-09 by the FASB) in May 2014. Based on the application of IFRS 15 from the year beginning on or after January 1, 2018 and ASU 2014-09 from the year beginning after December 15, 2017, the Accounting Standard Board of Japan ("ASBJ") developed comprehensive principles for revenue recognition and issued the above standard and guidance.

From the viewpoint of comparability, ASBJ started developing the new revenue recognition standard in incorporating the basic principle of IFRS 15, and added some sections in considering the Japanese practice to the extent that they do not impair comparability with other accounting standards.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of applying these new standards on the consolidated financial statements.

- ASU 2016-02 "Leases"
(1) Summary
Under this accounting standard, a lessee is required to recognize assets or liabilities for basically all leases on the balance sheet.
(2) Effective date
Effective from the year ending March 31, 2022.
(3) Effects of the application of the standards
The impact is yet to be determined at this time.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)
(1) Summary
In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement for the following items:
 Financial instruments in "Accounting Standard for Financial Instruments"
 Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories"
Additionally, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised to establish notes including a breakdown by the market value level of financial instruments.
(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.
(3) Effects of the application of the standards
The impact is yet to be determined at this time.

- "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)
(1) Summary
The purpose of this standard is to provide an overview of the accounting principles and procedures adopted, when the relevant accounting standards are not clear.
(2) Effective date
Effective from the year ending March 31, 2021.

- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)
(1) Summary
The purpose of this standard is to disclose information that contributes to the understanding among users of financial statements, which addresses figures recorded in the financial statements for the current fiscal year based on accounting estimates for items that have a risk of a material effect on financial statements for the next fiscal year.
(2) Effective date
Effective from the year ending March 31, 2021.

4 FINANCIAL INSTRUMENTS

QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

POLICIES FOR USING FINANCIAL INSTRUMENTS

The Group finances cash mainly through bank loans and the issuance of bonds, in light of planned capital investment. Temporary surplus funds are managed through investments in low-risk assets. Short-term operating funds are financed mainly through bank loans and commercial paper. Our policies on derivative instruments are to use them to hedge risks, as discussed below, and not to conduct speculative transactions.

DETAILS OF FINANCIAL INSTRUMENTS AND THE EXPOSURES TO RISK

Trade notes and accounts receivable, while due within one year, are subject to customers' credit risks. Accounts receivable denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates; such risk is hedged, in principle, by netting the foreign-currency-denominated accounts receivable against accounts payable, and applying foreign exchange forward contracts on the resulting net position.

Short-term investments consist mainly of certificates of deposit and other highly-liquid short-term investments. Investment securities consist mainly of stocks of our business partner companies and are subject to the risk of market price fluctuations and other factors. Long-term loans receivable are provided mainly to our business partner companies.

Trade notes and accounts payable, as well as other accounts payable, are due within one year. Of these payables, those denominated in foreign currencies are subject to the risk of fluctuations in foreign exchange rates. However, the balance of such payables denominated in major currencies is constantly less than that of the accounts receivable denominated in the same foreign currency. For minor currencies where this does not apply, such payables are hedged, as necessary, through foreign exchange forward contracts, considering the transaction amounts and the degree of risk of foreign exchange rate fluctuation.

Loans payable, bonds payable, and lease obligations are mainly intended for financing cash required for capital investment. The longest time to maturity of these liabilities is 56 years and 4 months from March 31, 2020 (57 years and 4 month in the year ended March 31, 2019).

Derivative instruments consist of foreign exchange forward contracts. For details on derivative instruments, refer to "Derivatives and Hedge Accounting" under Note 2, "Summary of Significant Accounting Policies," and Note 6, "Derivatives."

POLICIES AND PROCESSES FOR MANAGING RISK

MANAGEMENT OF CREDIT RISKS (I.E., RISKS ASSOCIATED WITH THE DEFAULT OF COUNTERPARTIES)

The Group manages credit risks, in compliance with internal control rules and procedures.

The due dates and the balances of trade notes, accounts receivable, and loans receivable from major counterparties are monitored and managed, in order to detect early and mitigate the risk of doubtful receivables.

Short-term investments and derivative transactions are executed only with banks with high credit ratings. As such, the credit risks of these short-term investments and derivative transactions are considered to be minimal. The credit risks of counterparty financial institutions are reviewed on a quarterly basis.

The amount of maximum risk as of March 31, 2020 is represented by the balance sheet amount of financial assets exposed to credit risks.

MANAGEMENT OF MARKET RISKS (I.E., RISKS ASSOCIATED WITH FLUCTUATIONS IN FOREIGN EXCHANGE RATES AND INTEREST RATES)

The Group hedges the risk of foreign exchange rate fluctuation on foreign-currency-denominated receivables and payables, using foreign exchange forward contracts, on a monthly and individual currency basis. Foreign exchange forward contracts are executed as necessary, up to 6 months ahead at longest, on foreign-currency-denominated receivables and payables that are expected to arise with certainty as a result of forecasted export and import transactions.

The Company and some of its consolidated subsidiaries use interest rate swaps in order to reduce the risk of interest rate fluctuation on loans payable.

For details on management of derivative transactions, refer to Note 6, "Derivatives".

With regard to short-term investments and investment securities, their fair values as well as the financial standing of their issuing entities are monitored on a regular basis. Ownership of available-for-sale securities are reviewed on a continuous basis.

MANAGEMENT OF LIQUIDITY RISKS RELATED TO FINANCING (I.E., RISKS OF NON-PERFORMANCE OF PAYMENTS ON THEIR DUE DATES)

The liquidity risks of the Group are managed mainly through the preparation and update of the cash schedule by the Treasury Department. In addition, the Company aims to ensure a certain level of liquidity at hand in order to respond to sudden changes in external environment.

FAIR VALUES OF FINANCIAL INSTRUMENTS

As of March 31, 2019 and 2020, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments for which fair value is deemed highly difficult to measure are excluded from the following table. Cash and cash equivalents and short-term investments are also excluded, since the fair values are approximately the same as the carrying values.

	Millions of yen		
As of March 31, 2019	Carrying values	Fair values	Difference
Assets:			
1) Trade notes and accounts receivable	¥ 192,701		
Allowance for doubtful receivables (*1)	(167)		
Trade notes and accounts receivable, net	¥ 192,534	¥ 192,534	¥ —
2) Investment securities			
Available-for-sale securities	62,893	62,893	—
3) Long-term loans receivable (*2)	5,660		
Allowance for doubtful receivables (*3)	(143)		
Long-term loans receivable, net	5,517	5,517	—
Total	¥ 260,944	¥ 260,944	¥ —
Liabilities:			
1) Trade notes and accounts payable	¥ 432,669	¥ 432,669	¥ —
2) Other accounts payable (*4)	31,386	31,386	—
3) Short-term debt	124,484	124,484	—
4) Long-term debt	482,567	484,660	2,093
Total	¥1,071,106	¥1,073,199	¥2,093
Derivative instruments: (*5)			
1) Hedge accounting not applied	¥ 575	¥ 575	¥ —
2) Hedge accounting applied	1,200	1,200	—
Total	¥ 1,775	¥ 1,775	¥ —

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2020	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Trade notes and accounts receivable	¥ 169,007			$1,550,523		
Allowance for doubtful receivables (*1)	(129)			(1,184)		
Trade notes and accounts receivable, net	¥ 168,878	¥ 168,878	¥ —	$1,549,339	$1,549,339	$ —
2) Investment securities						
Available-for-sale securities	60,508	60,508	—	555,120	555,120	—
3) Long-term loans receivable (*2)	7,053			64,706		
Allowance for doubtful receivables (*3)	(133)			(1,220)		
Long-term loans receivable, net	6,920	6,920	—	63,486	63,486	—
Total	¥ 236,306	¥ 236,306	¥ —	$2,167,945	$2,167,945	$ —
Liabilities:						
1) Trade notes and accounts payable	¥ 364,784	¥ 364,784	¥ —	$3,346,642	$3,346,642	$ —
2) Other accounts payable (*4)	32,265	32,265	—	296,009	296,009	—
3) Short-term debt	121,364	121,364	—	1,113,431	1,113,431	—
4) Long-term debt	498,504	499,074	570	4,573,431	4,578,661	5,230
Total	¥1,016,917	¥1,017,487	¥570	$9,329,513	$9,334,743	$5,230
Derivative instruments: (*5)						
1) Hedge accounting not applied	¥ 970	¥ 970	¥ —	$ 8,899	$ 8,899	$ —
2) Hedge accounting applied	438	438	—	4,018	4,018	—
Total	¥ 1,408	¥ 1,408	¥ —	$ 12,917	$ 12,917	$ —

(*1) Allowance for doubtful receivables, which is recognized on the basis of each individual accounts receivable, is deducted.
(*2) Long-term loans receivable include those due within one year, which are included in "other current assets" on the consolidated balance sheets.
(*3) Allowance for doubtful receivables, which is recognized on the basis of each individual long-term loans receivable, is deducted.
(*4) Other accounts payable is included in accrued expense in the consolidated balance sheets.
(*5) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ( ).

The financial instruments in the following table are excluded from "Assets: 2) Investment securities" in the above tables because measuring the fair value of these instruments is deemed highly difficult; market prices of these instruments are not available and future cash flows from these instruments are not contracted.

	Millions of yen		Thousands of U.S. dollars
	Carrying values		Carrying values
As of March 31	2019	2020	2020
Available-for-sale securities:			
Non-listed equity securities	¥ 1,484	¥ 1,481	$ 13,587
Investment securities of affiliated companies	151,951	152,011	1,394,596
Total	¥153,435	¥153,492	$1,408,183

BASIS OF MEASURING FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of some financial instruments are based on market prices. When market prices are unavailable, the fair values are based on reasonably estimated values. The estimated values may vary depending on the assumptions and variables used in the estimation.

ASSETS

1) Trade notes and accounts receivable
Trade notes and accounts receivable with short maturities are stated at carrying value as it approximates fair value.

2) Investment securities
As for listed stocks included in investment securities, their quoted prices on the stock exchange are used as their fair values.

For notes on securities by classification, refer to "Securities" under Note 2, "Summary of Significant Accounting Policies," and Note 5, "Securities."

3) Long-term loans receivable
Long-term loans receivable consist of variable interest loans. As such, the interest rates on these loans reflect the market rates of interest within short periods of time. Also, the credit standings of borrowers of these loans have not changed significantly since the execution of these loans. Accordingly, the carrying values are used as the fair values of these loans receivable. For loans receivable at a high risk, the fair value is calculated mainly based on amounts estimated to be collectible through collateral and guarantees.

LIABILITIES

1) Trade notes and accounts payable, 2) Other accounts payable, and 3) Short-term debt
These payables are settled within short periods of time. Hence, their carrying values approximate their fair values. Accordingly, carrying values are used as the fair values of these payables.

4) Long-term debt

a) Bonds payable
The fair value of bonds issued by the Group is based on the market price where such a price is available. Otherwise, the sum of the present value of principal and interest payments is used as the fair value of bonds payable. The discount rates used in computing the present value reflect the time to maturity of the bonds as well as credit risk.

b) Long-term loans payable and c) Finance lease obligations
The fair value of these liabilities is calculated by the sum of the principal and interest payments discounted to present value, using the imputed interest rate that would be required to newly execute a similar borrowing or lease transaction.

DERIVATIVE INSTRUMENTS

Refer to Note 6, "Derivatives."

SCHEDULED AMOUNT OF RECEIVABLES

Scheduled amounts of receivables were as follows:

	Millions of yen			
As of March 31, 2019	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥192,701	¥ —	¥ —	¥ —
Long-term loans receivable	309	3,919	1,193	239
Total	¥193,010	¥3,919	¥1,193	¥239

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2020	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥169,007	¥ —	¥ —	¥ —	$1,550,523	$ —	$ —	$ —
Long-term loans receivable	246	6,441	208	158	2,257	59,092	1,908	1,450
Total	¥169,253	¥6,441	¥208	¥158	$1,552,780	$59,092	$1,908	$1,450

For the schedule of repayment of long-term debt after the consolidated balance sheet date, refer to Note 9, "Short-Term Debt and Long-Term Debt."

5 SECURITIES

The acquisition costs and the carrying values of available-for-sale securities with market values as of March 31, 2019 and 2020 were as follows:

	Millions of yen		
As of March 31, 2019	Acquisition costs	Carrying values	Difference
Stocks	¥55,966	¥61,897	¥5,931
Other	987	996	9
Total	¥56,953	¥62,893	¥5,940

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2020	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Stocks	¥55,974	¥59,535	¥3,561	$513,523	$546,193	$32,670
Other	1,015	973	(42)	9,312	8,927	(385)
Total	¥56,989	¥60,508	¥3,519	$522,835	$555,120	$32,285

6 DERIVATIVES

The Group uses derivative financial instruments to reduce foreign exchange risk and interest rate risk and to determine cash flows.

The Group uses forward foreign exchange contracts for the purpose of mitigating future risks of fluctuations in foreign currency exchange. Also, for the purpose of mitigating future risks of fluctuations in interest rates with respect to borrowings, the Group uses interest rate swap contracts. The Group does not engage in speculative transactions as a matter of policy, limiting the transaction amount to actual demand.

Forward foreign exchange contracts are subject to risks of foreign exchange rate changes. Also, interest rate swap contracts are subject to risks of interest rate changes.

Use of derivatives to manage these risks could result in the risk of a counterparty defaulting on a derivative contract. However, the Company believes that the risk of a counterparty defaulting is minimum since the Group uses only highly credible financial institutions as counterparties.

Derivative transactions are conducted in compliance with internal control rules and procedures that prescribe transaction authority. The policies for derivative transactions of the Group are approved by the Company's President or Financial Officer. Transactions are approved in advance by either the Company's Financial Services Division General Manager or Treasury Department General Manager. Based on these approvals, the Treasury Department conducts and books the transactions as well as confirms the balance between the counterparty of the derivatives contract.

The operation of the transaction is segregated from its clerical administration, in order to maintain internal check within the Treasury Department, and is audited periodically by the Global Auditing Department. Derivative transactions are reported, upon execution, to the Company's Financial Officer, Financial Services Division General Manager, and Treasury Department General Manager. The consolidated subsidiaries also follow internal control rules and procedures pursuant to those of the Company, obtain approval of the Company, and conduct and manage the transactions according to the approval.

As the important conditions concerning the hedging instrument and the hedged item are the same, it is expected that the effects of currency and interest rate fluctuations will be canceled or restricted to a certain extent at the beginning of the hedge and continuing thereafter. Therefore, judgment on the effectiveness of hedging is omitted.

The following summarizes hedging derivative financial instruments used by the Group and items hedged:

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency-denominated transactions planned in the future
Interest rate swap contracts	Long-term loans payable

The following tables summarize fair value information as of March 31, 2019 and 2020 of derivative transactions for which hedge accounting has not been applied.

The amount in the contract itself does not indicate the market risk related to derivative transactions.

1) Currency related

	Millions of yen			
As of March 31, 2019	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:				
Sell:				
U.S. dollar	¥17,762	¥—	¥ 63	¥ 63
Euro	1,876	—	10	10
Canadian dollar	10,022	—	131	131
Australian dollar	7,882	—	37	37
Sterling pound	2,220	—	49	49
Buy:				
Thai baht	8,408	—	285	285
Total	¥48,170	¥—	¥575	¥575

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2020	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:								
Sell								
Euro	¥ 4,882	¥—	¥ 103	¥ 103	$ 44,789	$—	$ 945	$ 945
Canadian dollar	7,081	—	572	572	64,963	—	5,248	5,248
Australian dollar	3,742	—	433	433	34,330	—	3,972	3,972
Buy:								
Thai baht	4,289	—	(138)	(138)	39,349	—	(1,266)	(1,266)
Total	¥19,994	¥—	¥ 970	¥ 970	$183,431	$—	$ 8,899	$ 8,899

For forward foreign exchange contracts, fair values at year-end are estimated based on prevailing forward exchange rates at that date.

2) Interest rate related
Not applicable.

The following tables summarize fair value information as of March 31, 2019 and 2020 of derivative transactions for which hedge accounting has been applied.

The amount in the contract itself does not indicate the market risk related to derivative transactions.

1) Currency related
The hedged items are mainly accounts receivable and accounts payable, and hedge accounting is based on the principal treatment method.

	Millions of yen		
As of March 31, 2019	Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥ 8,864	¥—	¥ 41
Euro	51,064	—	665
Canadian dollar	13,376	—	216
Australian dollar	7,090	—	44
Sterling pound	4,439	—	100
Buy:			
Thai baht	20,644	—	134
Total	¥105,477	¥—	¥1,200

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2020	Contract amount	Thereof due after 1 year	Estimated fair value	Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥11,054	¥—	¥ 212	$101,413	$—	$ 1,945
Euro	15,743	—	216	144,431	—	1,981
Canadian dollar	5,029	—	441	46,138	—	4,046
Australian dollar	1,482	—	161	13,596	—	1,477
Buy:						
Thai baht	17,811	—	(592)	163,404	—	(5,431)
Total	¥51,119	¥—	¥ 438	$468,982	$—	$ 4,018

2) Interest rate related
Not applicable.

7 INVENTORIES

Inventories as of March 31, 2019 and 2020 were as follows:

As of March 31	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Finished products	¥325,372	**¥331,574**	**$3,041,963**
Work in process	87,042	**89,846**	**824,275**
Raw materials and supplies	16,122	**19,885**	**182,432**
Total	¥428,536	**¥441,305**	**$4,048,670**

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014-09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

8 LAND REVALUATION

As of March 31, 2001, in accordance with the Law to Partially Revise the Land Revaluation Law (Law No.19, enacted on March 31, 2001), land owned by the Company for business use was revalued. The unrealized gains on the revaluation are included in net assets as "Land revaluation," net of deferred taxes. The deferred taxes on the unrealized gains are included in liabilities as "Deferred tax liability related to land revaluation."

The fair value of land was determined based on official notice prices that were assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of 1998 Cabinet Order, promulgated on March 31, 1998). Reasonable adjustments, including those for the timing of assessment, were made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2019 and 2020 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥86,485 million and ¥78,987 million ($724,651 thousand), respectively.

9 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2019 and 2020 consisted of loans, principally from banks with interest rates averaging 1.08% and 1.10% for the respective years.

Long-term debt as of March 31, 2019 and 2020 consisted of the following:

As of March 31	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Domestic unsecured bonds due serially through 2021 to 2027 at rate of 0.30% to 0.42% per annum	¥ 50,000	**¥ 50,000**	**$ 458,716**
Loans principally from banks, maturing through 2076:			
Secured loans	6,870	**4,329**	**39,716**
Unsecured loans	418,554	**423,176**	**3,882,349**
Lease obligations, maturing through 2026	7,143	**20,999**	**192,650**
Subtotal	482,567	**498,504**	**4,573,431**
Amount due within one year	(51,103)	**(41,614)**	**(381,780)**
Total	¥431,464	**¥456,890**	**$4,191,651**

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.22% and 2.07%, respectively, for obligations due within one year and 0.69% and 3.06%, respectively, for obligations due after one year at March 31, 2020.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 0.82% and 1.12%, respectively, for obligations due within one year and 2.02% and 1.09%, respectively, for obligations due after one year at March 31, 2019.

The annual maturities of long-term debt at March 31, 2020 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 41,614	$ 381,780
2022	14,861	136,339
2023	63,872	585,982
2024	76,106	698,220
2025	84,194	772,422
Thereafter	217,857	1,998,688
Total	¥498,504	$4,573,431

The assets pledged as collateral for short-term debt of ¥33,737 million ($309,514 thousand) and ¥33,541 million, and long-term debt of ¥4,329 million ($39,716 thousand) and ¥6,870 million at March 31, 2019 and 2020, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2020	2020
Property, plant and equipment, at net book value	¥434,033	¥443,862	$4,072,128
Inventories	75,307	71,692	657,725
Other	57,615	75,662	694,147
Total	¥566,955	¥591,216	$5,424,000

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014-09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

10 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2020	2020
Guarantees of loans and similar agreements	¥12,124	¥12,533	$114,982

11 OPERATING LEASES

The amounts of future minimum lease payments under non-cancellable operating leases as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2020	2020
Current portion	¥ 4,993	¥ 3,073	$ 28,193
Non-current portion	39,990	9,984	91,596
Total	¥44,983	¥13,057	$119,789

12 NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law (“the Law”), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Law.

Cash dividends charged to retained earnings during the year are year-end cash dividends for the previous year and interim cash dividends for the current year.

Stock acquisition rights as stock options are included in net assets as stock acquisition rights.

Dividends

1) Dividends paid to shareholders

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders’ cut-off date	Effective date
Annual general meeting of shareholders held on June 26, 2019	¥12,595 $115,550	¥20.00 $0.18	March 31, 2019	June 27, 2019
Board of Directors meeting held on November 1, 2019	¥9,447 $86,670	¥15.00 $0.14	September 30, 2019	November 29, 2019

2) Dividends with the cut-off date within the current fiscal year, but the effective date falls within the subsequent fiscal year

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders’ cut-off date	Effective date
Annual general meeting of shareholders held on June 24, 2020	¥12,596 $115,560	¥20.00 $0.18	March 31, 2020	June 25, 2020

13 STOCK OPTIONS

The stock options outstanding as of March 31, 2020 were as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2016 Stock Acquisition Rights	8 Directors (*1) 18 Executive Officers	Common stock 68,200 shares (*3)	August 22, 2016	From August 23,2016 to August 22, 2046
2017 Stock Acquisition Rights	8 Directors (*1) 21 Executive Officers	Common stock 72,200 shares (*3)	August 21, 2017	From August 22,2017 to August 21, 2047
2018 Stock Acquisition Rights	8 Directors (*1) 20 Executive Officers	Common stock 89,700 shares (*3)	August 20, 2018	From August 21,2018 to August 20, 2048
2019 Stock Acquisition Rights	6 Directors (*2) 19 Executive Officers and Fellow	Common stock 104,700 shares (*3)	August 20, 2019	From August 21,2019 to August 20, 2049

(*1) Except for outside directors
(*2) Except for directors who are the Audit and Supervisory Committee members and outside directors
(*3) Converted into number of shares

The stock options activities for the year ended March 31, 2020 were as follows:

For the year ended March 31, 2020	2016 Stock Acquisition Rights (Shares)	2017 Stock Acquisition Rights (Shares)	2018 Stock Acquisition Rights (Shares)	2019 Stock Acquisition Rights (Shares)
Non-vested:				
March 31, 2019 - Outstanding	—	—	—	—
Granted	—	—	—	104,700
Forfeited	—	—	—	—
Vested	—	—	—	104,700
March 31, 2020 - Outstanding	—	—	—	—
Vested:				
March 31, 2019 - Outstanding	57,200	64,900	89,700	—
Vested	—	—	—	104,700
Exercised	8,400	8,100	10,800	—
Expired	—	—	—	—
March 31, 2020 - Outstanding	48,800	56,800	78,900	104,700
Price of Stock Options:				
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
	$0.01	$0.01	$0.01	$0.01
Weighted average stock price at exercise	¥999.1	¥999.1	¥999.1	¥ —
	$ 9.17	$ 9.17	$ 9.17	$ —
Fair value price at grant date	¥1,327	¥1,336	¥1,027	¥ 650
	$12.17	$12.26	$ 9.42	$5.96

The assumptions used to measure the fair value of 2019 Stock Acquisition Rights

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	37.550%
Estimated remaining outstanding period:	8 years
Estimated dividend:	¥35.00 per share
Risk-free interest rate:	(0.340)%

14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major items and amounts included in "Selling, general and administrative expenses" in the consolidated statements of income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2020	2020
Sales promotion expenses	¥ 55,968	¥ 57,449	$ 527,055
Advertising expenses	128,328	124,313	1,140,486
Freightage and packing expenses	51,348	51,564	473,064
Reserve for warranty expenses	52,365	51,520	472,661
Salaries and wages	122,510	121,066	1,110,697
Retirement benefit expenses	6,669	7,670	70,367
Research and development costs	134,660	135,009	1,238,615

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014-09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

15 RESEARCH AND DEVELOPMENT COSTS

All research and development costs are included in selling, general and administrative expenses. The research and development costs for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2020	2020
Research and development costs	¥134,660	¥135,009	$1,238,615

16 OTHER INCOME/(EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2020	2020
Rental income	¥ 1,755	¥ 1,731	$ 15,881
Loss on sale of receivables	(1,855)	(1,478)	(13,560)
Foreign exchange gain/(loss)	2,524	(10,466)	(96,018)
Loss on sales and retirement of property, plant and equipment, net	(5,279)	(3,645)	(33,440)
Impairment loss (Note 17)	(1,149)	(797)	(7,312)
Loss on disaster (*1)	(3,726)	—	—
Gain on sale of investment securities	1,730	413	3,789
Compensation for the exercise of eminent domain	30	109	1,000
Reversal of provision for environmental measures	—	88	807
Reserve for loss on business of subsidiaries and affiliates	(128)	—	—
Other	(512)	(1,307)	(11,991)
Total	¥(6,610)	¥(15,352)	$(140,844)

(*1) The loss on disaster was related to the torrential rain that occurred in July 2018. The main components of the loss were the fixed costs during the temporary suspension of the operations and reduced production.

17 IMPAIRMENT LOSS

Details of impairment losses for the years ended March 31, 2019 and 2020 were as follows:

For the year ended March 31, 2019

Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	Gunma Prefecture, Japan, etc.	Buildings and structures, Land, etc.	¥ 198
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	617
Assets for selling	Chiba Prefecture, Japan, etc.	Buildings and structures, Land	334
Total			¥1,149

For the year ended March 31, 2020

Purpose of use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle assets (Sales facilities)	Gifu Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles	¥203	$1,862
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, Land, etc.	475	4,358
Assets for selling	Osaka Prefecture, Japan, etc.	Buildings and structures, Land	119	1,092
Total			¥797	$7,312

For the purpose of reviewing for impairment, the Group has principally grouped its long-lived assets into asset groups by company; however, idle assets, assets for rent, and assets for selling are individually reviewed for impairment.

The recoverable amounts of these assets were measured at their net realizable value.

18 OTHER COMPREHENSIVE INCOME/(LOSS)

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2019 and 2020.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2020	2020
Net unrealized gain/(loss) on available-for-sale securities			
Amounts arising during the fiscal year	¥ (6,608)	**¥ (2,393)**	**$ (21,954)**
Reclassification adjustments	(1)	**6**	**55**
Subtotal before tax	(6,609)	**(2,387)**	**(21,899)**
Tax effect	1,843	**622**	**5,706**
Balance at end of period	(4,766)	**(1,765)**	**(16,193)**
Deferred gains/(losses) on hedges			
Amounts arising during the fiscal year	2,717	**1,318**	**12,092**
Reclassification adjustments	(1,901)	**(2,080)**	**(19,083)**
Subtotal before tax	816	**(762)**	**(6,991)**
Tax effect	(249)	**232**	**2,129**
Balance at end of period	567	**(530)**	**(4,862)**
Foreign currency translation adjustment			
Amounts arising during the fiscal year	(1,665)	**(15,855)**	**(145,459)**
Adjustments for retirement benefits			
Amounts arising during the fiscal year	(12,539)	**(8,739)**	**(80,174)**
Reclassification adjustments	5,104	**4,883**	**44,798**
Subtotal before tax	(7,435)	**(3,856)**	**(35,376)**
Tax effect	2,164	**1,215**	**11,147**
Balance at end of period	(5,271)	**(2,641)**	**(24,229)**
Share of other comprehensive income/(loss) of affiliates accounted for using equity method			
Amounts arising during the fiscal year	(4,135)	**1,570**	**14,404**
Reclassification adjustments	(17)	**48**	**440**
Balance at the end of period	(4,152)	**1,618**	**14,844**
Total other comprehensive income/(loss)	¥(15,287)	**¥(19,173)**	**$(175,899)**

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014-09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

19 EMPLOYEES' RETIREMENT BENEFITS

The Group has contributory defined contribution and defined benefit plans, and non-contributory defined benefit plans.

For the accounting policies for retirement benefits, refer to "Employees' retirement benefits" under Note 2, "Summary of Significant Accounting Policies."

Reconciliations of beginning and ending balances of the retirement benefit obligations and the plan assets for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2020	2020
Movements in retirement benefit obligations:			
Balance at beginning of year	¥338,723	**¥351,192**	**$3,221,945**
Service cost	12,101	**13,070**	**119,908**
Interest cost	2,948	**2,641**	**24,229**
Actuarial differences	8,529	**1,503**	**13,789**
Benefits paid	(14,975)	**(15,389)**	**(141,183)**
Past service costs	198	**(125)**	**(1,147)**
Other	3,668	**778**	**7,138**
Balance at end of year	¥351,192	**¥353,670**	**$3,244,679**

For the years ended March 31	Millions of yen 2019	2020	Thousands of U.S. dollars 2020
Movements in plan assets:			
Balance at beginning of year	¥275,234	¥285,446	$2,618,771
Expected return on plan assets	5,006	5,124	47,009
Actuarial differences	(3,619)	(7,561)	(69,367)
Contributions paid by the employer	17,029	9,478	86,954
Benefits paid	(11,753)	(11,722)	(107,541)
Other	3,549	767	7,036
Balance at end of year	¥285,446	¥281,532	$2,582,862

The reconciliation of the retirement benefit obligations and plan assets to the liability and asset for retirement benefits recognized in the consolidated balance sheets as of March 31, 2019 and 2020 was as follows:

As of March 31	Millions of yen 2019	2020	Thousands of U.S. dollars 2020
Funded retirement benefit obligations	¥ 335,201	¥ 337,975	$ 3,100,688
Plan assets	(285,446)	(281,532)	(2,582,862)
Subtotal	49,755	56,443	517,826
Unfunded retirement benefit obligations	15,991	15,695	143,991
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	65,746	72,138	661,817
Liability for retirement benefits	69,691	75,874	696,092
Asset for retirement benefits	(3,945)	(3,736)	(34,275)
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 65,746	¥ 72,138	$ 661,817

The profits and losses related to retirement benefits for the years ended March 31, 2019 and 2020 were as follows:

For the years ended March 31	Millions of yen 2019	2020	Thousands of U.S. dollars 2020
Service cost	¥12,101	¥13,070	$119,908
Interest cost	2,948	2,641	24,229
Expected return on plan assets	(5,006)	(5,124)	(47,009)
Actuarial differences amortization	5,732	5,616	51,523
Past service costs amortization	(628)	(733)	(6,725)
Other	525	(50)	(458)
Severance and retirement benefit expenses	¥15,672	¥15,420	$141,468

Note: For the years ended March 31, 2019 and 2020, accrued pension costs related to defined contribution plans were charged to income as ¥3,409 million and ¥3,388 million ($31,083 thousand), respectively. This cost is not included in the above.

The breakdown of items of adjustments for retirement benefit (before tax) recognized in other comprehensive income for the years ended March 31, 2019 and 2020 was as follows:

For the years ended March 31	Millions of yen 2019	2020	Thousands of U.S. dollars 2020
Past service costs	¥ (826)	¥ (608)	$ (5,578)
Actuarial differences	(6,609)	(3,248)	(29,798)
Total	¥(7,435)	¥(3,856)	$(35,376)

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2019 and 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2020	2020
Past service costs that are yet to be recognized	¥ 3,917	**¥ 3,309**	**$ 30,358**
Actuarial differences that are yet to be recognized	(32,894)	**(36,142)**	**(331,578)**
Total	¥(28,977)	**¥(32,833)**	**$(301,220)**

The breakdown of plan assets by major category as of March 31, 2019 and 2020 was as follows:

As of March 31	2019	2020
Bonds	43%	**47%**
Equity securities	27%	**24%**
General accounts of the life insurance companies	16%	**16%**
Other	14%	**13%**
Total	100%	**100%**

The major items of actuarial assumptions for the years ended March 31, 2019 and 2020 were as follows:

For the years ended March 31	2019	2020
Discount rate	Primarily 0.6%	**Primarily 0.6%**
Long-term expected rate of return	Primarily 1.5%	**Primarily 1.5%**

To determine the long-term expected rate of return on plan assets, the Company considers current and expected allocation of the plan assets, as well as current and expected future long-term returns on various assets constituting the plan assets.

20 INCOME TAXES

The effective tax rate reflected in the consolidated statements of income for the years ended March 31, 2019 and 2020 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2019	2020
Statutory tax rate	30.5 %	**30.5 %**
Valuation allowance	1.2 %	**56.1 %**
Foreign withholding tax	7.6 %	**13.3 %**
Unrecognized tax effect on unrealized gains	9.7 %	**1.0 %**
Equity in net income of affiliated companies	(8.7)%	**(12.2)%**
Refund of income taxes for prior periods	—	**(21.2)%**
Other	(2.1)%	**3.9 %**
Effective tax rate	38.2 %	**71.4 %**

REFUND OF INCOME TAXES FOR PRIOR PERIODS

The refund of income taxes of ¥11,766 million ($107,945 thousand) was according to the settlement of the mutual agreement procedures between the U.S. and Japan regarding the transfer pricing taxation.

Deferred tax assets and liabilities reflect the estimated tax effects of tax loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes.

The significant components of deferred tax assets and liabilities as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2020	2020
Deferred tax assets:			
Accrued bonuses and other reserves	¥ 60,505	¥ 60,735	$ 557,202
Liability for retirement benefits	22,676	24,473	224,523
Tax loss carryforwards (*2)	29,152	19,626	180,055
Foreign tax credit carry forward	6,731	11,716	107,486
Inventory, etc.	8,806	9,245	84,817
Impairment loss	1,375	1,377	12,633
Valuation loss on investment securities, etc.	554	675	6,193
Allowance for doubtful receivables	254	190	1,743
Other	50,010	52,910	485,412
Total	180,063	180,947	1,660,064
Valuation allowance for tax loss carryforwards (*2)	(16,551)	(6,779)	(62,193)
Valuation allowance for deductible temporary differences, etc	(31,308)	(53,752)	(493,137)
Total valuation allowance (*1)	(47,859)	(60,531)	(555,330)
Total deferred tax assets	132,204	120,416	1,104,734
Deferred tax liabilities:			
Retained earnings in subsidiaries and affiliates	(12,854)	(14,200)	(130,275)
Effect of exchange rate fluctuations on foreign subsidiaries	(8,012)	(11,983)	(109,936)
Asset for retirement benefits	(2,329)	(2,287)	(20,982)
Net unrealized gain on available-for-sale securities	(1,999)	(1,391)	(12,761)
Other	(3,710)	(5,996)	(55,009)
Total deferred tax liabilities	(28,904)	(35,857)	(328,963)
Net deferred tax assets	¥103,300	¥ 84,559	$ 775,771

(*1) Valuation allowance increased by ¥12,672 million ($116,257 thousand). This increase was mainly resulted from the Company's reassessment on the recoverability of deferred tax assets based on an estimation of the impact of the global spread of the novel coronavirus using a certain assumption as of March 31, 2020, offset by the decrease in the valuation allowance for tax loss carryforwards on overseas subsidiaries.

(*2) Tax loss carryforwards and their deferred tax assets by expiration periods are as follows:

	Millions of yen		
As of March 31, 2019	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2020	¥ 70	¥ (64)	¥ 6
2021	—	—	—
2022	—	—	—
2023	—	—	—
2024	—	—	—
Thereafter	29,082	(16,487)	12,595
Total	¥29,152	¥(16,551)	¥12,601 (b)

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2020	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2021	¥ —	¥ —	¥ —	$ —	$ —	$ —
2022	—	—	—	—	—	—
2023	—	—	—	—	—	—
2024	—	—	—	—	—	—
2025	—	—	—	—	—	—
Thereafter	19,626	(6,779)	12,847	180,055	(62,193)	117,862
Total	¥19,626	¥(6,779)	¥12,847 (c)	$180,055	$(62,193)	$117,862 (c)

(a) Tax loss carryforwards are after multiplying the statutory tax rate.
(b) Deferred tax assets of ¥12,601 million were recognized for tax loss carryforwards of ¥29,152 million (amount multiplied by the statutory tax rate). No valuation allowance was recognized for the tax loss carryforwards which were determined to be recoverable based on expected future taxable income.
(c) Deferred tax assets of ¥12,847 million ($117,862 thousand) were recognized for tax loss carryforwards of ¥19,626 million (amount multiplied by the statutory tax rate; $180,055 thousand). No valuation allowance was recognized for the tax loss carryforwards which were determined to be recoverable based on expected future taxable income.

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014–09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

21 SEGMENT INFORMATION

SEGMENT INFORMATION

OVERVIEW OF REPORTABLE SEGMENTS

The reportable segments of the Company consist of business components for which separate financial statements are available. The reportable segments are subject to periodical review by Board of Directors meetings for the purpose of making decisions on the distribution of corporate resources and evaluating business performance.

The Company is primarily engaged in the manufacture and sale of passenger and commercial vehicles. Businesses in Japan are managed by the Company. Businesses in North America are managed by Mazda Motor of America, Inc. and the Company, while businesses in Europe are managed by Mazda Motor Europe GmbH and the Company. Areas other than Japan, North America, and Europe are defined as Other areas. Business deployment in countries in Other areas are managed in an integrated manner by the Company as one management unit. Accordingly, the Company consists of regional segments based on a system of managing production and sale. As such, Japan, North America, Europe, and Other areas are designated as 4 reportable segments.

CALCULATION METHODS USED FOR NET SALES, INCOME OR LOSS, ASSETS, AND OTHER ITEMS ON EACH REPORTABLE SEGMENTS

Accounting policies of the reportable segments are the same as those noted in Note 2, "Summary of Significant Accounting Policies."

Inter-segment sales and transfers are based on market prices.

NET SALES, INCOME OR LOSS, AND ASSETS BY REPORTABLE SEGMENTS

Net sales, income or loss, and assets by reportable segments for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen						
	Reportable segments						
As of and for the year ended March 31, 2019	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥1,106,715	¥1,134,510	¥699,045	¥623,902	¥3,564,172	¥ —	¥3,564,172
Inter-segment sales and transfers	1,777,327	211,160	24,072	70,234	2,082,793	(2,082,793)	—
Total	2,884,042	1,345,670	723,117	694,136	5,646,965	(2,082,793)	3,564,172
Segment income	22,462	21,007	12,870	24,239	80,578	1,729	82,307
Segment assets	2,258,843	432,603	238,361	313,106	3,242,913	(365,300)	2,877,613
Other items:							
Depreciation and amortization	60,190	19,187	5,003	4,063	88,443	—	88,443
Impairment losses	1,031	117	—	1	1,149	—	1,149
Investments in affiliated companies on the equity method	32,397	14,598	2,550	102,295	151,840	—	151,840
Increase in property, plant and equipment and intangible assets	74,759	39,091	1,819	4,065	119,734	—	119,734

As of and for the year ended March 31, 2020	Millions of yen						
	Reportable Segments						
	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥1,035,277	¥1,166,712	¥705,492	¥522,804	¥3,430,285	¥ —	¥3,430,285
Inter-segment sales and transfers	1,735,605	197,582	28,816	83,324	2,045,327	(2,045,327)	—
Total	2,770,882	1,364,294	734,308	606,128	5,475,612	(2,045,327)	3,430,285
Segment income/(loss)	(25,320)	30,839	10,260	26,435	42,214	1,389	43,603
Segment assets	2,174,003	456,906	205,142	326,146	3,162,197	(374,557)	2,787,640
Other items:							
Depreciation and amortization	59,098	21,220	5,621	6,330	92,269	—	92,269
Impairment losses	792	7	—	(2)	797	—	797
Investments in affiliated companies on the equity method	33,353	16,420	3,052	99,074	151,899	—	151,899
Increase in property, plant and equipment and intangible assets	89,241	38,229	1,661	3,447	132,578	—	132,578

As of and for the year ended March 31, 2020	Thousands of U.S. dollars						
	Reportable Segments						
	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	$ 9,497,954	$10,703,780	$6,472,404	$4,796,367	$31,470,505	$ —	$31,470,505
Inter-segment sales and transfers	15,922,982	1,812,679	264,367	764,440	18,764,468	(18,764,468)	—
Total	25,420,936	12,516,459	6,736,771	5,560,807	50,234,973	(18,764,468)	31,470,505
Segment income/(loss)	(232,294)	282,927	94,128	242,524	387,285	12,743	400,028
Segment assets	19,944,982	4,191,798	1,882,037	2,992,165	29,010,982	(3,436,303)	25,574,679
Other items:							
Depreciation and amortization	542,183	194,679	51,569	58,074	846,505	—	846,505
Impairment losses	7,266	64	—	(18)	7,312	—	7,312
Investments in affiliated companies on the equity method	305,991	150,642	28,000	908,936	1,393,569	—	1,393,569
Increase in property, plant and equipment and intangible assets	818,725	350,725	15,239	31,623	1,216,312	—	1,216,312

(*1) Notes on adjustment:
(1) The adjustment on segment income/(loss) is eliminations of inter-segment transactions.
(2) The adjustment on segment assets is mainly eliminations of inter-segment receivables and payables.
(*2) The Segment income/(loss) is reconciled with the operating income in the consolidated statements of income for the years ended March 31, 2019 and 2020. The Segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2019 and 2020.

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014-09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change. As a result, net sales and segment income of North America segment decreased by ¥524 million and ¥706 million, respectively, and segment assets of North America segment increased by ¥6,595 million.

ASSOCIATED INFORMATION

INFORMATION BY GEOGRAPHIC AREA

The sales information by geographic area for the years ended March 31, 2019 and 2020 was as follows:

For the years ended March 31	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Japan	¥ 693,581	¥ 629,911	$ 5,779,000
U.S.A	809,740	873,632	8,014,972
North America (Excluding U.S.A)	327,646	294,261	2,699,642
Europe	714,538	715,837	6,567,312
Other areas	1,018,667	916,644	8,409,579
Total	¥3,564,172	¥3,430,285	$31,470,505

Sales are categorized into the countries or regions based on the customers' locations.

Note: As described in Note 3, "Accounting Changes," the consolidated foreign subsidiaries that apply US GAAP adopted ASU 2014–09 from the beginning of the fiscal year ended March 31, 2020. The figures for the year ended March 31, 2019 were adjusted retrospectively in accordance with this change.

The property, plant and equipment information by geographic area as of March 31, 2019 and 2020 was as follows:

As of March 31	Millions of yen 2019	Millions of yen 2020	Thousands of U.S. dollars 2020
Japan	¥ 828,666	¥ 863,019	$7,917,606
Mexico	107,835	110,476	1,013,541
North America (Excluding Mexico)	9,811	23,309	213,844
Europe	19,606	20,015	183,624
Other areas	44,638	55,695	510,963
Total	¥1,010,556	¥1,072,514	$9,839,578

22 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2019 and 2020.

For the year ended March 31, 2020, an important affiliate was Changan Mazda Automobile Co., Ltd., and the summary of its financial statements used in the calculation of the equity in net income of affiliated companies was as follows:

As of and for the year ended March 31, 2020	Millions of yen	Thousands of U.S. dollars
Total current assets	¥147,761	$1,355,606
Total non-current assets	62,919	577,239
Total current liabilities	132,797	1,218,322
Total non-current liabilities	9,767	89,606
Total net assets	68,116	624,917
Net sales	255,673	2,345,624
Net income before income taxes	37,701	345,881
Net income	29,311	268,908

23 SIGNIFICANT SUBSEQUENT EVENTS

LARGE AMOUNT OF LOANS

In order to prepare for liquidity risk due to the global spread of the novel coronavirus, the Company borrowed a total of ¥290,000 million ($2,660,550 thousand) from financial institutions in the period between April 30, 2020 and June 22, 2020 as described below.

(1) Use of funds	Working capital
(2) Lenders	Sumitomo Mitsui Banking Corporation and four others
(3) Total amount	¥290,000 million ($2,660,550 thousand)
(4) Terms of loans	The interest rates were determined considering market interest rates
(5) Borrowing date	April 30, 2020 - June 22, 2020
(6) Final repayment date	May 22, 2023 - June 21, 2027
(7) Pledged assets	Unsecured and unguaranteed
(8) Important covenants	None

KPMG

Independent auditor's report

To the Board of Directors of Mazda Motor Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at March 31, 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended , and notes, comprising a summary of significant accounting policies, other explanatory information.

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 cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, 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, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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 our 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, 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.

- 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 and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We 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.

/S/ Satoshi Yokosawa
Designated Engagement Partner
Certified Public Accountant

/S/ Atsushi Nagata
Designated Engagement Partner
Certified Public Accountant

/S/ Takuya Morishima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
August 6, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

MAZDA MOTOR CORPORATION