NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2019

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 at March 31, 2019, which was ¥111 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 (68 in the year ended March 31, 2018). In addition, 18 affiliates (18 in the year ended March 31, 2018) 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 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.

ALLOWANCE FOR DOUBTFUL RECEIVABLES
Allowance for doubtful receivables provides for losses from bad debt. The amount estimated to be uncollectible is recognized.

For receivables of ordinary risk, the amount is estimated based on the past default ratio.

For receivables of high risk, the amount is estimated based on the financial standing of the debtor.

RESERVE FOR WARRANTY EXPENSES
Reserve for warranty expenses provides for after-sales expenses to product. Primarily, according to the product warranty provisions, the amount estimated based on actual costs incurred in the past, taking future prospects into consideration, is recognized.

RESERVE FOR LOSS ON BUSINESS OF SUBSIDIARIES AND AFFILIATES
Reserve for loss on business of subsidiaries and affiliates provides for losses on subsidiaries and affiliates' businesses.
The amount of loss estimated to be incurred by the Company is recognized.

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 on mainly 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 net operating 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.

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.

3 ACCOUNTING CHANGES
(CHANGES IN ACCOUNTING POLICIES)
The accounting standard of IFRS 15 has been applied from the year ended March 31, 2019 by the consolidated foreign subsidiaries and affiliates of the Company that apply IFRS. The effects of this standard on the consolidated financial statements were 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 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(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 2014-09 "Revenue from Contracts with Customers"

(1) Summary
Under this accounting standard, an entity shall recognize revenue to depict the transfer of promised goods of services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2020.

(3) Effects of the application of the standard
The Company is to adjust the cumulative effect of applying ASU 2014-09 by decreasing the beginning retained earnings of the year ended March 31, 2019, and this will decrease the retained earnings by approximately ¥15,000 million.

- IFRS 16 "Leases" and ASU 2016-02 "Leases"

(1) Summary
Under these accounting standards, a lessee is required to recognize assets or liabilities for basically all leases on the balance sheet.

(2) Effective date
IFRS 16 will be effective from the year ending March 2020, and ASU 2016-02 will be effective from the year ending March 2021.

(3) Effects of the application of the standards
The effects of applying IFRS 16 on the consolidated financial statements are estimated to be an increase of ¥17,000 million in right-of-use assets and lease liabilities as of the beginning of the fiscal year ending March 31, 2020.

The Company's overseas subsidiaries are currently in the process of determining the effects of applying ASU 2016-02 on the consolidated financial statements.

(CHANGES IN PRESENTATION)

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets were classified as "Investments and other assets", and deferred tax liabilities were classified as "Non-current liabilities".

As a result, in the consolidated balance sheet as of March 31, 2018, deferred tax assets of ¥86,081 million have been reclassified from "Current assets" to "Investments and other assets", and deferred tax liabilities of ¥2 million have been reclassified from "Current liabilities" to "Non-current liabilities". In addition, deferred tax liabilities of ¥3,995 million have been reclassified from "Non-current liabilities" to "Investments and other assets" and included in the balance of deferred tax assets of ¥111,318 million. Based on the above, "Total Assets" has decreased by ¥3,995 million, resulting in the balance of ¥2,724,092 million.

Note 20, "Income taxes", additionally includes the information described in notes 8 (excluding total amount of valuation reserves) and 9 of "Accounting Standard for Tax Effect Accounting", which are required in paragraphs 3 to 5 of Statement No. 28. However, this additional information as of March 31, 2018 is not disclosed, in accordance with the transitional treatments prescribed in paragraph 7 of Statement No. 28.

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 finance lease obligations are mainly intended for financing cash required for capital investment. The longest time to maturity of these liabilities is 57 years and 4 months from March 31, 2019 (58 years and 4 month in the year ended March 31, 2018).

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 THE 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, 2019 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 Company and some of its consolidated subsidiaries hedge 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 2018, 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			Thousands of U.S. dollars		
As of March 31, 2019	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Trade notes and accounts receivable	¥ 192,701			$1,736,045		
Allowance for doubtful receivables (*1)	(167)			(1,504)		
Trade notes and accounts receivable, net	192,534	¥ 192,534	¥ —	1,734,541	$1,734,541	$ —
2) Investment securities						
Available-for-sale securities	62,893	62,893	—	566,604	566,604	—
3) Long-term loans receivable (*2)	5,660			50,991		
Allowance for doubtful receivables (*3)	(143)			(1,288)		
Long-term loans receivable, net	5,517	5,517	—	49,703	49,703	—
Total	¥ 260,944	¥ 260,944	¥ —	$2,350,848	$2,350,848	$ —
Liabilities:						
1) Trade notes and accounts payable	¥ 432,669	¥ 432,669	¥ —	$3,897,919	$3,897,919	$ —
2) Other accounts payable (*4)	31,386	31,386	—	282,757	282,757	—
3) Short-term debt	124,484	124,484	—	1,121,477	1,121,477	—
4) Long-term debt	482,567	484,660	2,093	4,347,450	4,366,306	18,856
Total	¥1,071,106	¥1,073,199	¥2,093	$9,649,603	$9,668,459	$18,856
Derivative instruments: (*5)						
1) Hedge accounting not applied	¥ 575	¥ 575	¥ —	$5,180	$5,180	$ —
2) Hedge accounting applied	1,200	1,200	—	10,811	10,811	—
Total	¥ 1,775	¥ 1,775	¥ —	$ 15,991	$ 15,991	$ —

	Millions of yen		
As of March 31, 2018	Carrying values	Fair values	Difference
Assets:			
1) Trade notes and accounts receivable	¥221,532		
Allowance for doubtful receivables (*1)	(218)		
Trade notes and accounts receivable, net	221,314	¥221,314	¥ —
2) Investment securities			
Available-for-sale securities	68,509	68,509	—
3) Long-term loans receivable (*2)	1,677		
Allowance for doubtful receivables (*3)	(165)		
Long-term loans receivable, net	1,512	1,512	—
Total	¥291,335	¥291,335	¥ —
Liabilities:			
1) Trade notes and accounts payable	¥417,589	¥417,589	¥ —
2) Other accounts payable (*4)	35,986	35,986	—
3) Short-term debt	101,844	101,844	—
4) Long-term debt	396,049	395,034	(1,015)
Total	¥951,468	¥950,453	¥(1,015)
Derivative instruments: (*5)			
1) Hedge accounting not applied	¥ 333	¥ 333	¥ —
2) Hedge accounting applied	385	385	—
Total	¥ 718	¥ 718	¥ —

(*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	2018	2019
Available-for-sale securities:			
Non-listed equity securities	¥ 1,484	¥ 2,464	$ 13,369
Investment securities of affiliated companies	151,951	139,632	1,368,928
Total	¥153,435	¥142,096	$1,382,297

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				Thousands of U.S. dollars			
As of March 31, 2019	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	¥192,701	¥ —	¥ —	¥ —	$1,736,045	$ —	$ —	$ —
Long-term loans receivable	309	3,919	1,193	239	2,784	35,306	10,748	2,153
Total	¥193,010	¥3,919	¥1,193	¥239	$1,738,829	$35,306	$10,748	$2,153

	Millions of yen			
As of March 31, 2018	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥221,532	¥ —	¥ —	¥ —
Long-term loans receivable	244	868	288	277
Total	¥221,776	¥868	¥288	¥227

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 2018 were as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2019	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Stocks	¥55,966	¥61,897	¥5,931	$504,198	$557,631	$53,433
Other	987	996	9	8,892	8,973	81
Total	¥56,953	¥62,893	¥5,940	$513,090	$566,604	$53,514

	Millions of yen		
As of March 31, 2018	Acquisition costs	Carrying values	Difference
Stocks	¥55,971	¥68,509	¥12,538
Other	—	—	—
Total	¥55,971	¥68,509	¥12,538

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 2018 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				Thousands of U.S. dollars			
As of March 31, 2019	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:								
U.S. dollar	¥17,762	¥—	¥ 63	¥ 63	$160,018	$—	$ 568	$ 568
Euro	1,876	—	10	10	16,901	—	90	90
Canadian dollar	10,022	—	131	131	90,288	—	1,180	1,180
Australian dollar	7,882	—	37	37	71,009	—	333	333
Sterling pound	2,220	—	49	49	20,000	—	441	441
Buy:								
Thai baht	8,408	—	285	285	75,748	—	2,568	2,568
Total	¥48,170	¥—	¥575	¥575	$433,964	$—	$5,180	$5,180

As of March 31, 2018	Millions of yen			
	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:				
Sell:				
U.S. dollar	¥ 4,250	¥—	¥ 1	¥ 1
Euro	5,406	—	176	176
Canadian dollar	8,649	—	(3)	(3)
Australian dollar	12,442	—	208	208
Buy:				
Thai baht	10,256	—	(49)	(49)
Total	¥41,003	¥—	¥333	¥333

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 2018 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.

As of March 31, 2019	Millions of yen			Thousands of U.S. dollars		
	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	**¥ 8,864**	**¥—**	**¥ 41**	**$ 79,856**	**$—**	**$ 369**
Euro	**51,064**	**—**	**665**	**460,035**	**—**	**5,992**
Canadian dollar	**13,376**	**—**	**216**	**120,505**	**—**	**1,946**
Australian dollar	**7,090**	**—**	**44**	**63,874**	**—**	**396**
Sterling pound	**4,439**	**—**	**100**	**39,991**	**—**	**901**
Buy:						
Thai baht	**20,644**	**—**	**134**	**185,982**	**—**	**1,207**
Total	**¥105,477**	**¥—**	**¥1,200**	**$950,243**	**$—**	**$10,811**

As of March 31, 2018	Millions of yen		
	Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:			
Sell:			
Euro	¥23,136	¥ —	¥248
Canadian dollar	4,942	—	4
Australian dollar	1,683	—	54
Buy:			
Thai baht	15,216	—	79
Total	¥44,977	¥ —	¥385

2) Interest rate related

Not applicable.

7 INVENTORIES

Inventories as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2018	2019
Finished products	¥324,754	¥291,515	$2,925,712
Work in process	87,042	94,238	784,162
Raw materials and supplies	16,122	14,034	145,243
Total	¥427,918	¥399,787	$3,855,117

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 2018 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥86,485 million ($779,144 thousand) and ¥91,818 million, respectively.

9 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2019 and 2018 consisted of loans, principally from banks with interest rates averaging 1.08% and 0.92% for the respective years.

Long-term debt as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2018	2019
Domestic unsecured bonds due serially through 2019 to 2027 at rate of 0.30% to 0.42% per annum	¥ 50,000	¥ 50,000	$ 450,450
Loans principally from banks, maturing through 2076:			
Secured loans	6,870	10,106	61,892
Unsecured loans	418,554	329,668	3,770,757
Lease obligations, maturing through 2026	7,143	6,275	64,351
Subtotal	482,567	396,049	4,347,450
Amount due within one year	(51,103)	(76,541)	(460,387)
Total	¥431,464	¥319,508	$3,887,063

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

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.67% and 1.05%, respectively, for obligations due within one year and 1.22% and 1.05%, respectively, for obligations due after one year at March 31, 2018.

The annual maturities of long-term debt at March 31, 2019 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥ 51,103	$ 460,387
2021	39,584	356,613
2022	12,566	113,207
2023	61,976	558,342
2024	73,300	660,360
Thereafter	244,038	2,198,541
Total	¥482,567	$4,347,450

The assets pledged as collateral for short-term debt of ¥33,541 million ($302,171 thousand) and ¥36,375 million, and long-term debt of ¥6,870 million ($61,892 thousand) and ¥10,106 million at March 31, 2019 and 2018, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2019**	2018	**2019**
Property, plant and equipment, at net book value	**¥434,033**	¥433,504	**$3,910,207**
Inventories	**74,689**	74,837	**672,874**
Other	**52,810**	56,365	**475,766**
Total	**¥561,532**	¥564,706	**$5,058,847**

10 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2019**	2018	**2019**
Guarantees of loans and similar agreements	**¥12,124**	¥6,927	**$109,225**

11 OPERATING LEASES

The amounts of future minimum lease payments under non-cancellable operating leases as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	**2019**	2018	**2019**
Current portion	**¥ 4,993**	¥ 4,899	**$ 44,982**
Non-current portion	**39,990**	44,260	**360,270**
Total	**¥44,983**	¥49,159	**$405,252**

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, 2018	¥12,595 $113,468	¥20.00 $0.18	March 31, 2018	June 27, 2018
Board of Directors meeting held on October 31, 2018	¥9,447 $85,108	¥15.00 $0.14	September 30, 2018	November 30, 2018

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 26, 2019	¥12,595 $113,468	¥20.00 $0.18	March 31, 2019	June 27, 2019

13 STOCK OPTIONS

The stock options outstanding as of March 31, 2019 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 (*2)**	**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 (*2)**	**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 (*2)**	**August 20, 2018**	**From August 21, 2018 to August 20, 2048**

(*1) Except for outside directors
(*2) Converted into number of shares

The stock options activities for the year ended March 31, 2019 were as follows:

For the year ended March 31, 2019	2016 Stock Acquisition Rights (Shares)	2017 Stock Acquisition Rights (Shares)	2018 Stock Acquisition Rights (Shares)
Non-vested:			
March 31, 2018 - Outstanding	—	—	—
Granted	—	—	89,700
Forfeited	—	—	—
Vested	—	—	89,700
March 31, 2019 - Outstanding	—	—	—
Vested:			
March 31, 2018 - Outstanding	64,900	72,200	—
Vested	—	—	89,700
Exercised	7,700	7,300	—
Expired	—	—	—
March 31, 2019 - Outstanding	57,200	64,900	89,700
Price of Stock Options:			
Exercise price	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)
Weighted average stock price at exercise	¥1,305 ($11.76)	¥1,305 ($11.76)	¥ — ($ —)
Fair value price at grant date	¥1,327 ($11.95)	¥1,336 ($12.04)	¥1,027 ($9.25)

The assumptions used to measure the fair value of 2018 Stock Acquisition Rights

Estimate method:	**Black-Scholes option pricing model**
Volatility of stock price:	**38.707%**
Estimated remaining outstanding period:	**8 years**
Estimated dividend:	**¥35.00 per share**
Risk-free interest rate:	**0.015%**

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 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2019**	2018	**2019**
Sales promotion expenses	**¥ 55,968**	¥ 50,304	**$ 504,216**
Advertising expenses	**126,230**	119,684	**1,137,207**
Freightage and packing expenses	**51,348**	48,172	**462,595**
Reserve for warranty expenses	**52,365**	49,494	**471,757**
Salaries and wages	**122,510**	117,889	**1,103,694**
Retirement benefit expenses	**6,669**	6,965	**60,081**
Research and development costs	**134,660**	136,009	**1,213,153**

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 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2018	2019
Research and development costs	¥134,660	¥136,009	$1,213,153

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 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2019	2018	2019
Rental income	¥ 1,755	¥ 1,784	$ 15,811
Loss on sale of receivables	(1,855)	(1,807)	(16,712)
Foreign exchange gain/(loss)	2,524	(3,624)	22,739
Loss on sales and retirement of property, plant and equipment, net	(5,279)	(4,775)	(47,559)
Impairment loss (note 17)	(1,149)	(2,425)	(10,351)
Loss on disaster (*1)	(3,726)	—	(33,568)
Gain on sale of investment securities	1,730	515	15,586
Reserve for loss on business of subsidiaries and affiliates	(128)	(292)	(1,153)
Litigation settlement	—	(7,539)	—
Other	(482)	(774)	(4,342)
Total	¥(6,610)	¥(18,937)	$(59,549)

(*1) The loss on disaster was related to the torrential rain 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 2018 were as follows:

For the year ended March 31, 2019

Purpose of use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle assets (Sales facilities)	Gunma Prefecture, Japan, etc.	Buildings and structures, Land etc.	¥ 198	$ 1,784
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	617	5,558
Assets for selling	Chiba Prefecture, Japan, etc.	Buildings and structures, Land	334	3,009
Total			¥1,149	$10,351

For the year ended March 31, 2018

Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	Aichi Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles, Land	¥ 609
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	926
Assets for selling	Fukuoka Prefecture, Japan, etc.	Buildings and structures, Land	890
Total			¥2,425

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 2018.

For the years ended March 31	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Net unrealized gain/(loss) on available-for-sale securities			
Amounts arising during the fiscal year	¥ (6,608)	¥ 7,511	$ (59,532)
Reclassification adjustments	(1)	(515)	(9)
Subtotal before tax	(6,609)	6,996	(59,541)
Tax effect	1,843	(2,126)	16,604
Balance at end of Period	(4,766)	4,870	(42,937)
Deferred gains/(losses) on hedges			
Amounts arising during the fiscal year	2,717	(2,362)	24,477
Reclassification adjustments	(1,901)	990	(17,126)
Subtotal before tax	816	(1,372)	7,351
Tax effect	(249)	422	(2,243)
Balance at end of Period	567	(950)	5,108
Foreign currency translation adjustment			
Amounts arising during the fiscal year	(1,123)	(248)	(10,118)
Adjustments for retirement benefits			
Amounts arising during the fiscal year	(12,539)	231	(112,964)
Reclassification adjustments	5,104	4,145	45,982
Subtotal before tax	(7,435)	4,376	(66,982)
Tax effect	2,164	(1,323)	19,495
Balance at end of Period	(5,271)	3,053	(47,486)
Share of other comprehensive income/(loss) of affiliates accounted for using equity method			
Amounts arising during the fiscal year	(4,135)	5,143	(37,252)
Reclassification adjustments	(17)	64	(153)
Balance at end of Period	(4,152)	5,207	(37,405)
Total other comprehensive income/(loss)	¥(14,745)	¥11,932	$(132,838)

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 2018 were as follows:

For the years ended March 31	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Movements in retirement benefit obligations:			
Balance at beginning of year	¥338,723	¥333,754	$3,051,559
Service cost	12,101	11,935	109,018
Interest cost	2,948	3,187	26,559
Actuarial differences	8,529	3,697	76,838
Benefits paid	(14,975)	(13,826)	(134,910)
Past service costs	198	319	1,784
Other	3,668	(343)	33,044
Balance at end of year	¥351,192	¥338,723	$3,163,892

For the years ended March 31	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Movements in plan assets:			
Balance at beginning of year	¥275,234	¥264,495	$2,479,586
Expected return on plan assets	5,006	4,803	45,099
Actuarial differences	(3,619)	3,989	(32,604)
Contributions paid by the employer	17,029	13,877	153,414
Benefits paid	(11,753)	(11,146)	(105,883)
Other	3,549	(784)	31,974
Balance at end of year	¥285,446	¥275,234	$2,571,586

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 2018 was as follows:

As of March 31	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Funded retirement benefit obligations	¥ 335,201	¥ 317,516	$ 3,019,829
Plan assets	(285,446)	(275,234)	(2,571,586)
Subtotal	49,755	42,282	448,243
Unfunded retirement benefit obligations	15,991	21,207	144,063
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	65,746	63,489	592,306
Liability for retirement benefits	69,691	67,287	627,847
Asset for retirement benefits	(3,945)	(3,798)	(35,541)
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 65,746	¥ 63,489	$ 592,306

The profits and losses related to retirement benefits for the years ended March 31, 2019 and 2018 were as follows:

For the years ended March 31	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Service cost	¥12,101	¥11,935	$109,018
Interest cost	2,948	3,187	26,559
Expected return on plan assets	(5,006)	(4,803)	(45,099)
Actuarial differences amortization	5,732	5,227	51,640
Past service costs amortization	(628)	(1,082)	(5,658)
Other	525	33	4,729
Severance and retirement benefit expenses	¥15,672	¥14,497	$141,189

Note: For the years ended March 31, 2019 and 2018, accrued pension costs related to defined contribution plans were charged to income as ¥3,409 million ($30,712 thousand) and ¥3,916 million, 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 2018 was as follows:

For the years ended March 31	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Past service costs	¥ (826)	¥(1,401)	$ (7,441)
Actuarial differences	(6,609)	5,779	(59,541)
Other	—	(2)	—
Total	¥(7,435)	¥ 4,376	$(66,982)

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2018	2019
Past service costs that are yet to be recognized	¥ 3,917	¥ 4,743	$ 35,288
Actuarial differences that are yet to be recognized	(32,894)	(26,285)	(296,342)
Total	¥(28,977)	¥(21,542)	$(261,054)

The breakdown of plan assets by major category as of March 31, 2019 and 2018 was as follows:

As of March 31	2019	2018
Bonds	43%	42%
Equity securities	27%	26%
General accounts of the life insurance companies	16%	16%
Other	14%	16%
Total	100%	100%

The major items of actuarial assumptions for the years ended March 31, 2019 and 2018 were as follows:

For the years ended March 31	2019	2018
Discount rate	Primarily 0.6%	Primarily 0.7%
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 2018 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2019	2018
Statutory tax rate	30.5 %	30.7 %
Valuation allowance	1.2 %	1.1 %
Unrecognized tax effect on unrealized gains	9.6 %	—
Equity in net income of affiliated companies	(8.6)%	(6.3)%
Foreign withholding tax	7.5 %	2.2 %
Decrease in deferred tax assets at end of year due to the change in tax rate	—	3.1 %
Other	(1.9)%	(3.5)%
Effective tax rate	38.3 %	27.3 %

(Changes in Presentation)
In the previous years, “Foreign withholding tax” was included in “Other” in the above table. However, since the rate has become material, it is separately presented from this year.

Deferred tax assets and liabilities reflect the estimated tax effects of 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 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2019	2018	2019
Deferred tax assets:			
Accrued bonuses and other reserves	¥ 59,559	¥ 68,566	$ 536,568
Net operating loss carryforwards (*1)	29,152	23,313	262,631
Liability for retirement benefits	22,676	21,532	204,288
Inventory, etc.	8,639	7,822	77,829
Impairment loss	1,375	2,010	12,387
Valuation loss on investment securities, etc.	554	888	4,991
Allowance for doubtful receivables	254	303	2,288
Other	51,786	54,928	466,541
Total	173,995	179,362	1,567,523
Valuation allowance for tax loss carryforwards (*1)	(16,551)	—	(149,108)
Valuation allowance for deductible temporary differences, etc.	(31,308)	—	(282,055)
Total valuation allowance	(47,859)	(41,470)	(431,163)
Total deferred tax assets	126,136	137,892	1,136,360
Deferred tax liabilities:			
Retained earnings in subsidiaries and affiliates	(13,033)	(13,635)	(117,414)
Effect of exchange rate fluctuations on foreign subsidiaries	(8,012)	(9,688)	(72,180)
Asset for retirement benefits	(2,329)	(2,236)	(20,982)
Net unrealized gain on available-for-sale securities	(1,999)	(3,820)	(18,009)
Other	(3,394)	(3,358)	(30,577)
Total deferred tax liabilities	(28,767)	(32,737)	(259,162)
Net deferred tax assets	¥ 97,369	¥105,155	$ 877,198

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

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2019	Tax loss carryforwards (a)	Valution allowance	Deferred tax assets	Tax loss carryforwards (a)	Valution allowance	Deferred tax assets
2020	¥ 70	¥ (64)	¥ 6	$ 631	$ (577)	$ 54
2021	—	—	—	—	—	—
2022	—	—	—	—	—	—
2023	—	—	—	—	—	—
2024	—	—	—	—	—	—
Thereafter	29,082	(16,487)	12,595	262,000	(148,532)	113,468
Total	¥29,152	¥(16,551)	¥12,601 (b)	$262,631	$(149,108)	$113,523 (b)

(a) Tax loss carryforwards are after multiplying the statutory tax rate.

(b) Deferred tax assets of ¥12,601 million ($113,523 thousand) were recognized for tax loss carryforwards of ¥29,152 million ($262,631) (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.

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 2018 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	¥1,135,034	¥699,045	¥623,902	¥3,564,696	¥ —	¥3,564,696
Inter-segment sales and transfers	1,777,327	211,160	24,072	70,234	2,082,793	(2,082,793)	—
Total	2,884,042	1,346,194	723,117	694,136	5,647,489	(2,082,793)	3,564,696
Segment income	22,462	21,713	12,870	24,239	81,284	1,729	83,013
Segment assets	2,258,843	426,008	238,361	313,106	3,236,318	(365,300)	2,871,018
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

	Thousands of U.S. dollars						
	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	$ 9,970,405	$10,225,531	$6,297,703	$5,620,739	$32,114,378	$ —	$32,114,378
Inter-segment sales and transfers	16,011,955	1,902,342	216,865	632,739	18,763,901	(18,763,901)	—
Total	25,982,360	12,127,873	6,514,568	6,253,478	50,878,279	(18,763,901)	32,114,378
Segment income	202,360	195,613	115,946	218,369	732,288	15,577	747,865
Segment assets	20,349,937	3,837,910	2,147,396	2,820,775	29,156,018	(3,290,991)	25,865,027
Other items:							
Depreciation and amortization	542,252	172,856	45,072	36,604	796,784	—	796,784
Impairment losses	9,288	1,054	—	9	10,351	—	10,351
Investments in affiliated companies on the equity method	291,865	131,514	22,973	921,576	1,367,929	—	1,367,928
Increase in property, plant and equipment and intangible assets	673,505	352,171	16,387	36,622	1,078,685	—	1,078,685

As of and for the year ended March 31, 2018	Millions of yen: Reportable segments: Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥1,060,078	¥1,114,292	¥695,200	¥604,454	¥3,474,024	¥ —	¥3,474,024
Inter-segment sales and transfers	1,793,880	244,093	17,688	73,577	2,129,238	(2,129,238)	—
Total	2,853,958	1,358,385	712,888	678,031	5,603,262	(2,129,238)	3,474,024
Segment income	81,582	27,004	8,747	25,423	142,756	3,665	146,421
Segment assets	2,178,880	397,963	216,528	309,433	3,102,804	(378,712)	2,724,092
Other items:							
Depreciation and amortization	59,876	19,091	4,661	3,326	86,954	—	86,954
Impairment losses	2,162	—	—	263	2,425	—	2,425
Investments in affiliated companies on the equity method	30,876	5,313	3,105	100,227	139,521	—	139,521
Increase in property, plant and equipment and intangible assets	77,972	10,526	2,750	12,881	104,129	—	104,129

(*1) Notes on adjustment:
(1) The adjustment on segment income 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 is reconciled with the operating income in the consolidated statements of income for the years ended March 31, 2019 and 2018.
The Segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2019 and 2018.
(*3) As we have noted in "Changes in Presentation", the company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" from the beginning of the fiscal year ended March 31, 2019. The figure of Segment assets for the year ended March 31, 2018 was adjusted retrospectively in accordance with this change. As a result, Japan segment amounted to ¥2,178,880 million, a decrease of ¥3,995 million.

ASSOCIATED INFORMATION

INFORMATION BY GEOGRAPHIC AREAS

The sales information by geographic areas for the years ended March 31, 2019 and 2018 was as follows:

For the years ended March 31	Millions of yen: 2019	2018	Thousands of U.S. dollars: 2019
Japan	**¥ 693,581**	¥ 631,229	**$ 6,248,477**
U.S.A.	**808,900**	783,157	**7,287,387**
North America (Excluding U.S.A.)	**329,010**	332,895	**2,964,054**
Europe	**714,538**	732,455	**6,437,279**
Other areas	**1,018,667**	994,288	**9,177,181**
Total	**¥3,564,696**	¥3,474,024	**$32,114,378**

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

The property, plant and equipment information by geographic areas as of March 31, 2019 and 2018 was as follows:

As of March 31	Millions of yen: 2019	2018	Thousands of U.S. dollars: 2019
Japan	**¥ 828,666**	¥816,702	**$7,465,460**
Mexico	**107,835**	84,040	**971,486**
North America (Excluding Mexico)	**9,811**	9,395	**88,387**
Europe	**19,606**	17,214	**176,631**
Other areas	**44,638**	44,071	**402,144**
Total	**¥1,010,556**	¥971,422	**$9,104,108**

22 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2019 and 2018.

For the year ended March 31, 2019, 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, 2019	Millions of yen	Thousands of U.S. dollars
Total current assets	¥167,271	$1,506,946
Total non-current assets	48,863	440,207
Total current liabilities	136,190	1,226,937
Total net assets	79,944	720,216
Net sales	335,015	3,018,153
Net income before income taxes	55,181	497,126
Net income	42,216	380,324

23 SUBSEQUENT EVENTS

No items to disclose.

KPMG

Independent Auditor's Report

To the Board of Directors of Mazda Motor Corporation:

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditor's Responsibility

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

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mazda Motor Corporation and its consolidated subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 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.

KPMG AZSA LLC

August 7, 2019
Hiroshima, Japan

MAZDA MOTOR CORPORATION